

Q2 2021 Earnings Call

Company Participants

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

Other Participants

- Neha Agarwala, Analyst
- Pedro Leduc, Analyst
- Thiago Batista, Analyst
- Unidentified Participant
- Yuri Fernandes, Analyst

Presentation

Operator

Good morning, and thank you for holding. Welcome to Banco Inter's Conference Call to discuss its Results for the Second Quarter of 2021. We have with us today, CEO, Joao Vitor Menin; Vice President, Alexandre Riccio de Oliveira; and the Finance and IR Officer, Helena Caldeira.

This conference is being recorded and all participants will be in listen in mode during the Company's presentation. And we will have a questions-and-answer session when more instructions will be given. (Operator Instructions). The conference is also being webcast live and it could be accessed through ri.bancointer.com.br. A replay of the conference will be available right after it's finished.

We would like to remind you that, those of you watching through the webcast, can send questions to the Company through its website and they will be answered after the conference is over. This call is being simultaneously translated into English for the Company's foreign investors.

Before, we continue I'd like to mention that forward-looking statements that may be made during this call about the Company's business perspectives, as well as its projections, operational and financial goals, are based on the management's expectations about the future of the Company, based on information that is currently available to Banco Inter. Future considerations are not a performance guarantee because they involve risks, uncertainties and assumptions referring to future events that therefore may or may not occur.

I'd like to give the floor to Mr. Joao Vitor Menin, CEO, who will begin his presentation. Mr. Menin, over to you. Please hold, while we reconnect. You may proceed sir.

Joao Vitor N. Menin T. de Souza {BIO 21561597 <GO>}

Good morning, everyone. It's a great pleasure to be with you again for one more conference call. So, we're going to do what we always do, I'm going to speak for a bit and then Alexandre will tell us about our results. Then Helena will tell us about the milestones we reach in the Capital Market and then we'll open up for questions.

So I'd like to do things a little differently during this call. I usually talk about products and results and about tipping points in revenue and income, but I'll leave that to Helena today. I'd like to use our time in the best way possible, so I can tell you, our shareholders listening to us, about the biggest delivery that we've had in the last couple of quarters, which was building our best asset, people. I don't know if you know, but we passed the milestone of 3,000 employees this quarter, which is very important. But that's not only 3,000 people, we really have 3,000 entrepreneurs. They are the ones who allow us to launch products, expand our revenue, improve our products every day.

About two weeks ago, I say that we didn't spend but we actually invested two weeks, so that we could work with our entrepreneurs, our executives and employees. We had a two very good weeks, we worked on career plans, where we encourage them to be protagonists to understand the company and to be resilient. This is what we're basing ourselves on here at Inter. So, we can be a stronger brands that delivers more and that retains and provides more value to our greatest asset, which are people. During these last two weeks, we heard a few speakers who gave us some great messages about their struggles, how to overcome achievements and challenges? And I think what Inter did in the last years, was very close to what these speakers described to us.

We were able to be protagonists, and we had all of the technical background to deliver what we have delivered so far. But the greatest thing about this is as our team expands with our culture with our way of doing things, and as we really prepare our people, I have no doubt that Inter will continue to deliver a lot in the future. So, you may ask this is an earnings call, so what is the point of talking about that? Well, results are a mere consequence of our team. This is the biggest asset for Inter. We don't need oil like Petrobras or paper like Suzano or ore like Vale. Our biggest asset really is people. So, the best way of spending time with our shareholders and to be closer to you is to tell you what we are investing in the most, what makes us more excited -- most excited and what's the biggest assets that we have, and that really is people.

So I'll conclude by saying that here at Inter, we say that the blood of our employees is orange. What runs through their veins is orange blood. But there is another great thing people say that what drives the world is oil, but actually it's willpower. So, I think we have this in our employees, the resilience, the protagonism. And I have no doubt that what we were able to achieve in such a short amount of time is only the beginning. This is only the first stage, the first half of the game. There is still a lot to be done, and I'm sure that we've the best team today. And we're going to reach better results, and you will see this in our financial disclosures, as Helena will discuss soon. But this is the message that I as a

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CEO wanted to give to our shareholders. I hope you see that what we've in our hands, which is this greatest asset, the 3,000 employees and entrepreneurs we have.

So, I'll pass it on to Alexandre, and then will return during the Q&A.

Alexandre Riccio De Oliveira {BIO 20402984 <GO>}

Good morning, everyone, and thank you for listening to our conference call. As per usual, I'll go through some of our highlights. So once again, it was a very strong quarter, which underscores our momentum as a business. We're growing a lot, our business is scalable and resilient. And we've a lot of opportunities to explore both in our existing basis with our 12 million clients and with the new clients that we are getting, as the business evolves.

Our trends have kept very well, so we overcame some of our internal measures like ARPU, cost of service and the service quality as well. So, we followed up on several measures, some of them are here such as NPS, the number of complaints in the Central Bank, App Store, Reclame Aqui and we had a great evolution in all of these measurements. Our team continues to evolve, so we're developing structuring capacity to deliver these opportunities as we grow. And we are still focused on having operational excellence. So, this is at the core of our agenda and we are adding it to our culture, which has innovation as one of its main pillars.

To tell you a bit about the figures, I'm going to go into our platform, starting with the client base engagement and unit economics. So we reached 12 million clients with a growth of over 100% year-on-year. We reached a higher number than we did in the first quarter and we had really disproportional growth in the second quarter. Our service revenues were higher than in the last quarter, and although we suffered some cost pressure, we were more efficient. Our cross-selling index or CSI and active clients, which is monthly active users or MAU, maintained their positive trends. So, CSI went up 30, -- excuse me, 5% on a consolidated basis, and even in our oldest groups, we were able to increase more than 1% in the activation index. And what these indicators show us? We don't have any mature groups Inter yet. We have a lot of space for monetization in new, older, and median groups. So, we are still falling short of our potential and our mission is really to reach that potential. Our NPS was 84 points. And to tell you a bit about day-to-day banking, we had great evolution in demand deposits, BRL8.3 billion and the average per client was also higher. So this was a 20% growth in demand deposits.

Card transactions did very well, BRL9.4 billion, a 24% growth quarter-on-quarter, and how have we advanced? We've been getting more comfortable with credit card products and we're learning about it over the years. So, we managed to have better limits, which are more proportional to our clients demands. And we think we're ready to continue evolving. We moved forward very well in three aspects: experience; product, including a loyalty product focused on cash back and credit models; and policies. These three elements are very important and we believe that we are doing very well there. That has helped to drive this disproportional growth, which I think we can expect for the next quarters.

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So as we become more comfortable we start believing that disproportional growth in cards is something that we can expect to get a greater share of wallet. This is something that we might have left behind before, and now we're bringing into Inter.

Now to tell you about Inter Shop, our marketplace, we once again had a great quarter. So, although online retail is apprehensive because of brick-and-mortar stores reopening, we reached BRL774 million GMV. Our take rate reached BRL56 million, and it was -- grew by 36% this quarter. So, again it was disproportional. For the first time, we reached 7% of the average take rate, actually, we had 7.2%. And Inter Shop is getting consolidated, but it's doing much better now that we've the partnership with Stone, which Helena will tell us about soon.

Now on investments, we had another great quarter. We reached a BRL63.5 billion, we reached 1.7 million active clients, out of which many of them have a great shares. So, we are maintaining them with diverse products and revenues grew 9%, reaching BRL16 million. So, there is still a lot of potential here, but we are moving in the right track. Another important point was the partnership, we started with ABC Brasil Bank, which Helena will also describe soon.

About insurance, we had another record-breaking quarter for this avenue, and it's also progressing very well. We reached 532,000 policyholders. The penetration of insurance products was reached 4.4%, so that underscores our belief that we can sell insurance at a large scale digitally. So, that was a question mark that we had in the past, that is now being embraced, as we reach 4.4%, so quickly. And we continue to generate revenues BRL21.6 million generated for the second quarter. And we also advance the platform significantly. We launched a digital healthcare plan with Qualicorp, several products also evolved. And we had a higher penetration of several products, like dental plans, which was a product that really did very well during the quarter.

About credits and loans. We can see that the credits area reinforced a change in growth, origination and in our portfolio. So, we maintained our strategy to build origination based on direct relationships without intermediaries, and we reached BRL3.3 billion in our credit portfolio. So it was a 108% growth in the last month. So, this was excellent. Our entire team deserves kudos. And just something that I had mentioned in day-to-day banking, the highlight here is the comfort that we've to grow in the cards portfolio. So we can expect that this will evolve significantly.

Finally, some financial highlights. We grew 109% in total revenue versus the second quarter of -- excuse me, the first quarter -- the second quarter of 2020. We grew 164%, again disproportional growth in service revenues versus last year BRL265 million, and that represents 48% of penetration in the services revenue. Finally, our profit was BRL18.2 million, Basel Index, 19.6x. But we're going to a higher level than that considering our follow-on, which was approved by (inaudible) in early June. So we'd like to thank our several stakeholders, clients, shareholders, and especially our team, which has been growing, strengthening itself and being more united to deliver on our purpose.

So, I'll pass it on to Helena, who is going to talk about our partnerships, follow-on, and some other events that took place during this quarter.

Helena Lopes Caldeira {BIO 21222037 <GO>}

Thank you, Alexandre. Good morning, everyone, and thank you for listening to this conference call. I'd say that this quarter was marked by more than just the financial and operational results. So, at the beginning of the quarter, we started a bid on. And the area negotiation volumes have gone up, it has gone over BRL210 million in the last 90 days. We also started great partnerships with ABC Brasil and the investment areas. We decided to accelerate origination from the capital markets, and we've already started to collect the results. We have some operations concluded and we have five additional operations in our short-term pipeline.

We also started a partnership with Sompó, which incorporated our follow-in, in June this year. We captured BRL5.5 billion with an investment of BRL2.5 billion by Stone. And we were strongly supported by our shareholders basis, our local investors and international investors. From that investment from Stone, we started having deeper commercial partnerships and we've had frequent exchanges with teams and talked about new opportunities to work together. This is interactions that have taken place in person and online, making use of this moment to really get closer and make these things happen. So we're very happy and confident that the ecosystem created by the two companies will be very good for the online market and also for the hybrid market, online and offline. We believe that our culture, our execution capacity, and our strategic of vision are really in line. So, we really can execute these plans and we're excited for that. We've also been working on with our assistance in reorganizing our corporate structure. So, we're trying to find a proposal that will make sense to all of our stakeholders. And we hope that we can maintain our growth without any limiting factors. So that we can continue in our strategy through partnerships, through acquisitions, and through new captures.

So this has been a great quarter, and we'll now open up for questions. Thank you.

Questions And Answers

Operator

Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions) Our first question is from Mr. Thiago Batista from UBS BB.

Q - Thiago Batista {BIO 15398695 <GO>}

I have two questions actually, if you'll allow me. First, we saw during this quarter important growth in cash back. Is that happened during Inter Day? I noticed that your take rate was very good, but your cashback went up significantly. And I just like to know if this happened after Inter Day?

And another question about your marketplace. You talked about trying to expand or use the Stone concept in your marketplace. And what do you need to provide to this client? Is

there any logistics behind it? Is there any additional work that you have to do from what you already do in order to plug in -- an average client?

A - Joao Vitor N. Menin T. de Souza {BIO 21561597 <GO>}

Hi, Thiago. This is Joao Vitor. Thank you for your questions. So, I'll tell you about cash back first, and then we'll talk about the value chain. So my perspective is this, obviously when you look at Inter Day, which was on July 7, about midway through the quarter, right, our sales volume was very significant. Obviously, as with every retail initiative, we have cash back campaigns, which are very expressive. And we've been discussing this inside the Company. And it's important to highlight it, that it really is a trade-off. We try to get a positive spread between the take rate and the cash back, but are we still taking our product? Which I have to say is the best online shopping experience in Brazil and maybe in the world, because you can select your cash back limits, to suit the experience. So should we continue to bring that to more clients because that incurs in a marketing expense? So that is a question that we have.

Let's say, constant brainstorm, and what we have concluded is that, as we have higher number of clients with campaigns, we believe that the path for the next quarters will be to continue to have a good spread from the take rates, the cash back, it should be tighter, so that we can show our clients that we've a great e-commerce products. So, that's a bit of our cash back dynamics. So during Inter Day, which is a great events that receives a lot of attention, we do make a cash back effort. It's a marketing expense for us. So, that's why the cash back versus take rate is different.

Your question about logistics. As we integrate with Stone, we were able to get medium sized retailers, who might not have a big logistics background. So, we do need to provide them with some fulfillment and shipping capacities. We talked about this in the company, about buying a company, but what we've seen in Brazil is that, e-commerce is evolving. It's booming, not only in numbers, but it really is advancing. We know some very good companies that do this well as a core business.

So do we need storage and trucks in our company? We think that we can do this through companies that do this end-to-end. And I'm sure that they will have better prices than us. Maybe the last mile, which has a higher added value is something that we can invest in, but that's how we see logistics right now. We see it more as a service, but the cost of the business -- with financial services, with a good catalog in this combination with Stone is difficult, it's not a commodity, it's not easily available in the market. So, I think we're the only ones who will be able to provide it well and we're going to make use of these B2B companies, that provide us with services to fill in that part of the equation.

Q - Thiago Batista {BIO 15398695 <GO>}

Great. Thank you.

Operator

The next question will be asked by Pedro Leduc from BOP Assets.

Q - Pedro Leduc {BIO 16665775 <GO>}

Good morning. This is Pedro Leduc from Itau BBA. Thank you for taking my question. So about your ARPU, I see that the market is a bit anxious. And what your showing us is polluted by a number of clients that just joined and that might not have as much revenue as the clients that consume three or four products from your current basis. So maybe if you can tell us about the previous client groups with more mature clients and how they're behaving? Thank you.

A - Joao Vitor N. Menin T. de Souza {BIO 21561597 <GO>}

Leduc, thank you. Answered your own question, I think you're right. Fortunately, we've been able to bring in many new clients to our platform. When we are talking about clients, we are talking a lot about checking accounts, so our CCs is well behaved. We have many clients and it does pollute a bit our ARPU. So, we do not disclose what happened with the previous groups of clients acquired. But when we look at the numbers we have, product cross-selling and client activation, you obviously can see that the previous groups are performing very well.

Clients are now with us, they brought in their salaries, they have started investing in our platform, they are tested Inter Shop, they've used our gift cards, they have used our insurance platform, so that naturally happens. Now the greatest thing and this is something that we often forget to discuss is that, in our ARPU, we have product activation. But we still have -- a lot that is to come. We don't want a platform only for fee ARPU and NII ARPU. So, we've to combine the maturation of products that we've, and the fact that we have a more comprehensive platform now. And we really are getting a lot of tailwind from NII, especially with cards, as Alexandre said. So that includes an important service component, and we listed as a service, not NII. So, that helps us to balance that at a 50-50 proportion. So having that basis on providing a good client experience, good products, and a comfortable credit model will make us more aggressive in a positive way, so that we can do things right. So that our consumers see that this is a great platform. So, they will no longer have their credit cards with other banks. And I believe that, that will give us a lot of contribution for our NII and so on. I believe we will grow. If we were to stop and look at it, we've had great growth in ARPU. Our average is very good, especially when we look at our CSI, and I'm sure that we can reach even higher levels.

Q - Pedro Leduc {BIO 16665775 <GO>}

Great. Thank you.

Operator

Ricardo Fonseca [ph] from BTG Pactual will ask the next question.

Q - Unidentified Participant

Good morning, everyone. Thank you for taking my question. First, I just like to hear about an update on your capital increase. How it went and if you expect to do another one? And also if I may ask another question, if you could give us an update on your KPIs for the next years? So insurance cards, what are you expecting? And considering the strong growth

you had in your credit portfolio and the volumes in your marketplace, should we expect the same level of growth to continue?

So, are we still expecting BRL8 billion or BRL10 billion or should we expect more than that? Thank you.

A - Joao Vitor N. Menin T. de Souza {BIO 21561597 <GO>}

So, Ricardo, I'll start at the end, and then, Helena will answer your first question. So yes, I do think we can expect from our shop three digit growth. It will be high, but of course, our comparative basis was low. So for 2022, we believe that we'll continue to grow by three digits. We still have a lot of penetration to do, we have to improve our experience, we have to improve our credit limits. So, I do think it's possible. In terms of modeling, we can expect that, we're very comfortable with that. There are many great levers that we can use to increase here.

You also asked about credit, right? So it's important to talk about that. Credit, when we talk about credit cards, well, not credit cards, but credit card usage will grow significantly. And when you look at the credit portfolio, the expanded credit portfolio, it's impacted by credit cards, even if it doesn't become an asset which is not what we're focusing on. We're not aiming to make money there. The value is having people doing transactions for us. So that improves the three elements, I mentioned. The experience, our clients to use our products and models, we can really be more aggressive in credit card limits, have more transactions, a greater TPV. And with that our expanded portfolio can grow even more than the 80% you mentioned.

Even considering credit card, real estate and consigned credit, we are confident that we will reach 80%, and we've actually been higher than that for the last 12 months. And we're comfortable because of a couple of reasons. First, we still have a very low credit penetration with our clients. So when we think about the percentage of picks that we've in the market, which is close to 10%. And we've less than 1% in real estate consigned in SMEs. I think we have a lot of tailwind, because we've facilitated credit, we have the know how, we understand the product. So, I think, we have the capital, right? As we said, our Basel Index is very good. So it's very clear that we will continue to grow a lot. Obviously, when we have a (inaudible) portfolio, we won't have an average price of 80%, that's reasonable to consider. But I think for the next years, this is a metric that you can consider in your calculation.

And now, Helena will answer your other questions.

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

Well, about reorganizing our structure, we are planning it, we want to do it as soon as possible. But we've to coordinate the process with the terms we've in Brazil and abroad, but we're in the final stages of signing and starting the process. We are working with two scenarios here. One, is definitely an exchange. So, we change our (inaudible). So, as we communicated in our material fact in May, we still have some things to do about this reorganization. But it's always great to have the option to have a good capture. It's not a

priority right now, with this capital of BRL5.5 billion recently. We're not expecting to have another capital raise. But flexibility is the best option for us, if we can find a way to have flexibility, this is going to generate more value for the company.

Q - Unidentified Participant

That was very clear. Thank you.

Operator

Our next question comes from Yuri Fernandes from J.P. Morgan.

Q - Yuri Fernandes

Well, thank you, everyone. Good morning. I have a question about credit growth. Assets have grown -- you have the capital to liquidity and the clients. So, it should not be a challenge on the short-term. But when we look at the liabilities, I thought this was a great quarter. You grew in deposits, which was a great trend in demand deposits. But how has your costing then? It's been very good, but will it remain that way? I mean, expanding assets is easy but expanding liabilities is a little bit more difficult in Brazil. So, you have a higher concentration of these liabilities with a smaller part of the population. So what should we expect in deposits? What we see cheap deposits growing in line with credit, considering you will grow at 80%, 90% to a 100% year-on-year. Or are we expecting your funding to be more expensive? So, I'm just wondering about your final margins. Again, you have very good funding cost, and I'm not sure what we should expect for the next years. Will it be that easy to grow? Thank you.

A - Joao Vitor N. Menin T. de Souza {BIO 21561597 <GO>}

Hi, Yuri. That's a great question, it's complex and quite interesting. So, I agree, as I said in the beginning there is a fight for CAC. We have many players in the market, you see that other companies have millions of clients. But what I usually say is that, Inter is a global benchmark for deposits, that's mathematical. If you look at the number of clients we have, and the number of deposits we have, that makes us a global benchmark. You can compare ourselves to any Brazilian player or British players, and how do we get there? There are many ways of looking at it. But we have a very comprehensive platform. We have products that make people really stay with us, right? So, our loss ratio is very low.

So I'm not sure, if I was to vocal about this. But, it was very important to be comfortable in our model. And that might have been the last bottleneck for us to say, okay, now clients are really going to see Inter as their main bank. Because it's -- it has a comprehensive offer, it's free for many things, I'm going to have a great credit card limit. So, we're very conservative in credit, but now we're comfortable with this model and experience for our client and having a good product. So, I don't see that this will go down. I think people are going to be more connected to Inter, bringing in their salaries, our investments, the insurance we started, a shopping service. So, we're going to expand this next week. But we started doing many new things, and I think deposits are difficult, people need to be engaged to really make more deposits. Bringing in clients is easy all you have to do is, invest in advertising, but I don't see that this is going to go down. In fact, I think we're going to have a higher penetration for deposits.

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So that's the hard side of the equation. So considering, we have the deposits, since the perspective is to continue to improve, and since we have the capital, you said that it's easier for assets, well I agree and disagree. It is easier, but there are some traps that you have to avoid, and one of them are cards. You can't lend too much, otherwise this model will not work. So we've improved it, we have that space in collateral credit, consigned credit, which is doing very well. So, when we look at these elements, maybe then assets are really easier. But I think finding a balance between assets and liabilities is very good for us. So, GLM is something that people often don't see in a platform, people believe it's all about having users and payments. And finally, when you talk about products with -- that bring people in, I don't think that's the right perspective. I think products that have more compressed rates will have a longer liability. But this is offset by a great lever, which is securitization. And I think that's the future, not only for Inter, but for the Brazilian market.

We tested after a long time in 2015 or before, we recruited for consign, credit -- and we had real estate credit operations for the first time, it was small but you always have to do -- go small for the first time, right. And we believe that, interest rates will remain flat in Brazil. So, we've that lever to use when we have a higher growth in real estate, use the capital markets. So, I think our balance between assets, liabilities and capital, it's very difficult to achieve for a new comer. When you're a consolidated bank it is easier. So, we were able to get a very good model for our operations.

Q - Yuri Fernandes

Great. Thank you. That was very good.

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

Hi, Yuri. This is Alexandre. I just want to add something to what Joao said, especially on liabilities. It's funny to get your question, because we got a similar question in March. We have been growing in credit at around a 100%, and even our Treasurer said, can we keep this pace? Do we have the funding to execute it? And we tested these levers and for a long time we had focused on third-party products, right, funds and so on. And we were very successful at that. LCI was a great source, which had remained stable for a long time, BRL1.7 billion. So, it's now at BRL2.1 billion. Capital capture grew by a lot in this last quarter. So, we see that our capacity to accelerate, is doing very well, as this line becomes more important.

Q - Yuri Fernandes

Yes, that's what we see also with incumbent banks, right? Assets with their own liabilities, so it's great that you have this basis with Inter Invest, that helps you to redirect these clients?

A - Joao Vitor N. Menin T. de Souza {BIO 21561597 <GO>}

Yes, this Joao Vitor again. So, it's interesting that we say that, Brazil has cars that runs on two types of fuels. And we also have clients that run on a couple of things. So, as it's like Alexandre said, if we need to pull a lever to bring in more deposits because our credit is growing, that's great. And if we need to bring clients in for -- to buy products that were issued by Inter. That's great too. So, of course, you need to have to base yourself on Selic

[ph] depending on how it is, people will choose different types of products. But I think the hybrid liability model is spectacular. But it's not easy to do, you need to have good investors, you need to have clients, you need to have checking accounts, on the other hand. So, we've built that over the last years, and I do think that it's a competitive edge that we have versus other platforms and other digital players in Brazil.

Q - Yuri Fernandes

Great. Thank you everyone.

Operator

The next question will be asked by Gabriel (inaudible) from Citibank.

Q - Unidentified Participant

Good morning, everyone. Thank you for taking my question. I know, that we talked about credit during this call. You said that, you are comfortable with your credit card limits. But what I'd like to understand is, what has changed for you to feel more comfortable? Maybe you're having more clients with positive records. Is that what's providing you with more confidence? And how do you see open bank operations to help you leverage your credit portfolio? Thank you.

A - Joao Vitor N. Menin T. de Souza {BIO 21561597 <GO>}

Hi, Gabriel. As I said there are a couple of important things. I'll talk about credit cards and then I'll talk about open banking. Credit cards, we really have more clients at the basis, but we are based on a couple of things. First, we needed to have a very good, a well rounded product. You can only provide greater credit limits, without having good cash back, without having a good experience, where you can make advanced payments on your credit card balance. Your experience can't be bad, right, because you might have a good product, you might have good limits. But your clients are not going to use your card if the experience is not good. So what we've done very well in the last quarters, let's look at these elements. Our modeling is better, our critical mass, Felipe does this. Also we've been working with a lot more data that makes our model much better.

Our app experience improved a lot. And you can see the comments we've been getting on social media, and we have a much better product, which has everything. So, we really can grow with our cards more aggressively, right, we can grow more. And what was your other question? About open banking, right?

With open banking, I think it's complementary, it's like I say, we've this greater basis in Inter. We have assets that we've had for a longer time. We start getting more confidence. And we've a big basis of people who are clients, that we're not looking at. So, open banking can really be a catalyst. First, to really accelerate concession and credit overall, not only cards, but maybe consigned credit and investments. So, I do think that open banking, if it works as we expect, the Central Bank did very well with creating things. So, open banking can be a watershed moment for Inter. We just have to wait.

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Q - Unidentified Participant

Great. And if you will allow me a follow-up question, it's very clear that you have a much more robust product right now. But looking at risk, of course, this is connected to your growth. But I just like to understand if you really feel comfortable with the model that you've been able to use. And if you can control risk, so we don't see provisions going up too much during the next quarters?

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

Well, this is Alexandre. What we have been doing is, well comfortable as a complicated world, when we think about credit. But we have monitored it very closely through behaviors. So, with any changes, we investigate it in-depth to understand if this is in origination bias or if there is anything happening there, so that we can really be comfortable with our growth. So that we can really deliver more. So, I think that's how our business is running. We're looking at it constantly, so that we can readjust. But with that being said and looking at the past we have been achieving this growth in our portfolio.

Q - Unidentified Participant

Okay. That was very clear. Thank you.

Operator

(inaudible) from Goldman Sachs, will ask the next question.

Q - Unidentified Participant

Hi, Joao, Alexandre and Helena. Thank you for taking my question. I think you've talked about the card a lot. But since you have high target for market share, I'd just like to know what your potential is? So, what do you believe your potential is in this market? And if I can ask you a second question about, if loans feature on hiring employees, I think Banco Inter is close to 3,000 employees. And how -- where do you think that's going to level out? How many employees do you need to run the bank as you're running today? Thank you.

A - Joao Vitor N. Menin T. de Souza {BIO 21561597 <GO>}

Okay. So let me tell you a bit about the market share for credit cards. So, when we started Pix, and we saw many of our competitors doing TV ads. We were even demanded by some investors, who asked why isn't Inter doing the same thing? We didn't make a lot of noise, but -- time shows that, now we have about 10% of all the Pix transfers in the market. And that for me is spectacular, really shows that our clients are active, engaged, and use Inter as their main platform. When you think about these 10%, I think that speaks volumes for me.

We can't have 10% of the clients and 1% of consigned or real estate credit or even 1% of credit cards. But credit cards are much easier to accelerate than consigned and real estate credit. These are longer clients, it's very difficult for clients to shift. Credit cards are much easier, it's something that is much easier to do than real estate or consigned credit. Because if you don't give the client the right limit, even if you have a wonderful platform,

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naturally they're not going to come, they need to use their card. So, I think that in the case of credit cards, we have a higher likelihood of leveraging. And why didn't we do it before? Some of our investors ask, why didn't you do it before, look at new bank and everything. But I think it's a matter of time. Time letting the model mature, the platform mature. As you have an installed basis, you start having interchange recurrence, which allows you to take some of the provision. So, that's a part of the model, and I think right now, we are seeing a change, right? I don't mean today, but maybe in the last two quarters. And this is something that we've talked about a lot, so that everyone is on the same page.

We're more excited about credit cards. Again, because we've a better model, a better experience, a better product, great installed capacity, which helps us to reduce of the swelling you have in the first group until the interchange pays for defaulting clients, right. So, we don't believe a lot in rotating credit. We don't see that as a healthy sorts of income. When we do presentations to the market, I even feel ashamed to talk about the fact that, our best fees are 7% a month. So, we are excited, I don't think we're going to get to 10% like we did with Pix very quickly, but with cards this percentage is growing fast. So, again it's an expanded portfolio, not necessarily revolving credit. We don't want people to go into that revolving scheme, and pay 15% a month. We really don't believe in that model.

Q - Unidentified Participant

Thank you, Joao. And what about the number of employees, if you can tell us anything about that?

A - Joao Vitor N. Menin T. de Souza {BIO 21561597 <GO>}

Oh, right, of course. Yes, that's very important. As I said in the beginning, it's very important to have an asset like that, it's our greatest assets really. And there are couple of points here. First, you need to be able to hire people with your culture, with your DNA, we've been able to do it. And then, you need to be able to feed them and make them thrive. People go to the earnings results, but look at our LinkedIn profile, it's spectacular. We feel like great employers. So, we've all the conditions to bring people in and to retain them. And in terms of leverage, that's great, we are retaining the best talents. People who are engaged, people who are going to bring efficiency and improvements to our product, so we're going to get a higher revenue or number of active clients per employee. So first, you need to be a very good employer with a strong culture and that's what's going to lead you to a good leverage and so on. So, I'm not sure how many employees were going to have, because we're really concerned about other things. We hope to have more people, right, as we're generating value -- more value to society. But the focus here is to retain people, train them with protagonism and information. That's going -- that's what's going to help us grow. So, I think we're doing very well on that end.

Q - Unidentified Participant

Thank you, Joao. You talked about using your balance for cards. Through this partnership with Stone do you also expect to use your balance for credit card operations with Stone? And what's your perception on credit quality with SMI -- excuse me, IMF?

A - Joao Vitor N. Menin T. de Souza {BIO 21561597 <GO>}

Yes. Well -- with a Basel Level of 60% [ph], we have several possibilities. Stone is a great partnership that we're very excited about. We had Stone Day recently, we took all of the directors from Inter to talk to Stone, and we were very happy. So we're going to explore that with them. We are still waiting to see what the volumes are, you might have tens of billions. So, it's really the early beginning, with Stone, there is still a lot that we can do and show. I think we get anxious, but we need to be patience, because we're getting there.

About IMF, I think we have a big space for that in Brazil. It's not very explored, but here we're talking about collateral credit, supply chain for big suppliers, cards, retail. So again, working capital needs to perform. But I think you can see in our figures that we're providing a lot of credit for companies and this is led by the IMF. They don't access that market in Brazil, so we want to have great credit and there is a lot of room in the market for that.

Q - Unidentified Participant

Great. Thank you, Joao.

Operator

The next question will be asked in English by Neha Agarwala from HSBC.

Q - Neha Agarwala {BIO 17722501 <GO>}

Hi. Thank you so much for taking my question, and apologies, I would like to ask in English. You could answer in Portuguese that's absolutely fine.

My question is, first on the loan growth, I think you mentioned that the loan growth could be above 80% in the next year, did I get it right? And could we see further decline in margins, the NIM, that you post for the remaining part of the year and next year? Because a lot of the loan growth is also driven by credit card and like you said, you do not believe in having a big balance in the revolving credit side.

And then my next question is on the costs. You have been able to control part of the operating costs well, but I think there was a big pickup in the other operating expenses line. So, could you give -- shed a little bit light on that? Was there an extraordinary or was this the level of OpEx that we should continue to see in the coming quarter? And any color on how we should see the bottom line, evolve in 2022 and after that? Thank you so much.

A - Joao Vitor N. Menin T. de Souza {BIO 21561597 <GO>}

So, about the credit book growth above 80% a year, that is right. It is 80% not eight. We do believe it's possible due to everything I mentioned funding quality, Basel Index, knowing the market and the low penetration that we still have. Your other question was about a decrease in our margins, I don't think that we need to have revolving to pull margins up or to hold our margins. As I said, companies, banks and platforms that depend

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on revolving to have an expanded basis -- a big basis, is not sustainable. I don't think it's going to last for a long time.

We don't want to offset lien revolving. We want to avoid that here at Inter, as much as we can. But when we think about SMI consigned, these are products that have good margins. They are not going to have any reduced lien in the future. So, I think, they're going to be stable. And about the cost, we mentioned cash back expenses. I talk a lot about marketing expenses. In Inter if you consider our CAC or cash back, the number of employees that we have, these are all investments. If we were able to have a recurring business P&L, we would have much better results than what we have. It's also important to say that, we have contracted revenue for our credit portfolio and fees, which are not in our -- is not in our records. But what should we expect for 2022 in our bottom line? It's difficult to say, it's a trade-off. We're going to grow faster in cards. We might have long-term growth due to that business. We might invest more in other platforms and going international, but with any bottom line movement that we have in 2022, it will be marginal.

And I mean that, both going up and going down, we're not going to have a very different ROE in 2022, and we're not going to cash burn either. So, in 2022, we do believe that we're going to have a more stable ROE, and we have a lot of operational leverage. But we also have a higher book after the follow-on. So, our profits can be much higher in 2022, but our ROE is still going to be low under 5%.

Q - Neha Agarwala {BIO 17722501 <GO>}

Very clear. Thank you so much.

Operator

We've received several questions, but in the interest of time, they will be answered via e-mail. Thank you for understanding. This concludes the question-and-answer session. We'd like to turn it over to Mr. Joao Vitor Menin for his final remarks. You may continue, sir.

This concludes Banco Inter's Conference Call. Thank you for listening. Have a great afternoon, and thank you for using Chorus Call.

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