Q1 2022 Earnings Call

Company Participants

- Alexandre Riccio de Oliveira, Vice President of Technology, Operations and Finance
- Helena Lopes Caldeira, Chief Financial Officer
- Joao Vitor Nazareth Menin Teixeira De Souza, Chief Executive Officer
- Santiago Stel, Chief Strategy and Investor Relations Officer

Other Participants

- Flavio Yoshida, Analyst
- Neha Agarwala, Analyst
- Otavio Tanganelli, Analyst
- Thiago Batista, Anlayst
- Tito Labarta, Analyst
- Yuri Fernandes, Analyst

Presentation

Operator

Good morning and thank you for standing by. Welcome to Inter's 1Q 2022 Earnings Conference Call. Today's speakers are Joao Vitor Menin, CEO; Alexandre Riccio, VP of Finance; Helena Caldeira, CFO; and Santiago Stel, Strategy and IR 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 listen-only mode. After the prepared remarks, there will be a question-and-answer session.

For the Q&A session, we ask you to write down your question via the Q&A icon at the bottom of your screen. Your name will then be announced, and you will be able to ask your question live. At this point, a request to activate your microphone will appear on your screen. If you do not want to open your microphone live, please write down, no microphone, at the end of your question. In this case, our operator will read your question aloud. Please note there is a translation button at 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 Menim, CEO. Sir, the floor is yours.

Joao Vitor Nazareth Menin Teixeira De Souza {BIO 20299156 <GO>}

Good morning, everyone. Thank you all for joining our earnings call for 1Q 2022 results. Before I start two highlights. First I would like to welcome Santiago Stel. Santiago just joined us as our Head of Strategy and IR. Santiago spent the last 10 years on Morgan Stanley covered investment bank and finally that he was in charge of doing our IPO back in 2018.

So he knows quite well about the business and about our culture the singular culture. Also, we're celebrating four years since we IPO the business back in 2018. And as you might recall, very proud of doing our IPO and three other follow-on offerings since then.

Talking about the 1Q, I would like to do a very sharp statement. We had a very good part. And the reason why I say that. First, we kept growing our business. We are a growth company. And second, we kept innovate. We are disruptive.

We just launched, for example, our six vertical the cross-border sensors. Also we were able to navigate well despite the macro trends in Brazil and the volatility in the capital markets. I would like to say that instead of reacting, we prepared ourselves.

And I would say that we prepared ourselves maybe five, six, seven years ago. We started building our business model back in 2015 and at the time what we wanted to have was a retail banking business, would help us to have a very good quality and cost of funding and also a good breakdown between NII and fee income.

This two things together would also deliver the best value proposition for our clients. And I would say that, that's exactly what we achieved today, and that's why I say we are prepared for this tough scenario ahead. The outcome of that is that we keep growing the business, the platform is growing at a fast pace. We will hit 20 million clients by the end of this month. I'm very proud of that. And thank you all to our clients that might be listening to this call.

Also, as I mentioned, we will print a good balance, something around 55, 45 breakdown between NII and fee income. This will help us to have a sustainable business in spite of the macro trends. And also will help us to be an asset light company despite being the bank.

On the operational leverage, we're very excited as well. We see more ARPAC, the revenue per active clients kicking in. The reason for that, we have five different credit verticals. We have six different fee income verticals.

And as I mentioned, we're gaining more clients, so the ARPAC will keep growing. Also we improve our CTS our cost to serve, which is a very, very good number when you compare it to income effects. We believe that we keep diluting our general expenses, for instance, employees, which is a big chunk of it, we add 2,000 employees last year.

We will not for sure add 2,000 employees on 2022. We launched it a lot of products. We implemented a lot of things in our super app. So it's there. It's time to make our clients to use this service that we provide over time.

Last but not least, the competition is slowing down. We see what's happening in the capital markets. So we believe that with less competition, our franchise will perform even better. I think that we will have even lower CAC despite of having the best CAC in the market.

We will have more growth despite growing quite well for this past years. And last I would say that a lot of engagement which will drive ARPAC ahead.

With that said I'll pass the mic to Alexandre that will go through the six verticals of our business.

Alexandre Riccio de Oliveira {BIO 20402984 <GO>}

Good morning, everyone, and thank you for being with us. As most of you know, we operate six business verticals which complement and reinforce each other having added cross-border services as our sixth vertical after the acquisition of USEND in a process that started last year.

I'll go through the highlights of each vertical. Starting on day to day banking, we had stellar growth on cards, with volumes increasing by 86% year-on-year. In this quarter, 5.8 million Brazilians use our cards. Transactional banking, which is the first day to day banking vertical, has consistently been a very strong vertical for Inter in market share, shown through demand deposit share and picks market share for instance.

Moving to credit. Our expanded loan portfolio approached the BRL20 billion mark, of which 4.5 billion were originated during the first quarter, 22% more origination than on the same period of last year. Our NIMs have been moving north of 7%, reflecting the efforts that we're making on repricing of the portfolio.

Talking about insurance our Inter Seguros vertical, we had outstanding results in the quarter with revenues growing over 50% year-on-year. Our client base achieved 915,000 close to our aspirational goal of 1 million that we established back in 2019.

Product diversification. Contextualize sales and focus on user experience continue to pay off as we go. On investments, revenues reached BRL37 million in the quarter, an impressive 144% increase year-on-year. 2 million clients are operating the platform as of the first quarter of 2022. Moving to page 11. I will dive a little deeper on Inter Shop, our marketplace vertical. Our revenues grew 135% as compared to a year ago, reaching BRL101 million in the quarter.

As you can see, GMV grew 56% and we were able to considerably expand our take rates, on a gross basis, take rates expanded to 9.6% on a net of cash back basis, it nearly tripled from 1.1% to 3%. We're able to navigate through a typically weak order for retail with very impressive KPIs.

Finally, I'll talk a little bit about our newest vertical, which is cross-border services. This line of business results from the acquisition of USEND, which closed in January of this year. The core of the business for now is the remittances from Brazilians leading in the US that recurrently transfer money back to Brazil and going forward we will have a fully integrated platform that will tap on the technology stack that we have in Brazil. Our cross-border services vertical already has significant volumes being transacted with more than US$200 million in remittance TPV during the first quarter.

More than 54,000 global accounts opened and peaks of around 3,000 new accounts, new global accounts a day. We're excited with the growth of this vertical and with the optionalities that it brings to our business.

With that, I'll pass the word to Santiago, who will talk about our financial performance. Thank you.

Santiago Stel

Thank you, Alexandre Good morning, everyone. Now moving on to page 14. This image illustrates how we think about the long-term value creation at Inter by being, on the one hand, the largest purely digital regulated bank in Brazil.

And, on the other hand, by having a highly recognized and established brand, these two factors combined have allowed us to attract clients at a very low CAC consistently below BRL30 per client. The result has been a vital growth in our customer base that has given us monetization potential in two fronts. First, the interest income, which is spread across multiple products and second on fees, which is asset light and recurrent and expands beyond just financial services.

The monetization impact, combined with the increasing cost to serve, will allow us to deliver strong shareholder value as our operational leverage continues to materialize. Moving on to page 15, our expanded loan portfolio reached in the quarter BRL19.8 billion. This represents an expansion of 81% year-over-year. On a quarter by quarter basis, our growth has intentionally been more modest as we have tightened our underwriting models, particularly on credit cards, prioritizing existing clients over new ones.

We expect growth to re-accelerate in the remainder of the year, particularly on the second half. These worth noting that consistently through time our loan mix continues to diversify across multiple products, decreasing the concentration risk of our exposures.

On asset quality we see that remains strong as a result of the structure of our balance sheet. Starting from the left, you can see that from our expanded loan portfolio, 73% is collateralized and over the interest bearing portfolio, the collateralization level reaches 94%.

Our coverage ratio remains stable to quarters now standing at 93%. And we look at the coverage ratio on a product by product basis, credit cards and SMEs are well above 100% coverage. Lastly, on the right hand side, our NPLs is 3.3% of the total loan portfolio in the quarter. On a product by product basis, NPLs have increased marginally with the exception of SMEs, which decreased during the quarter.

Going into funding on page 17, our funding base reached BRL23.2 billion in the quarter, an increase of 54% year-over-year. Given the rate environment combined with seasonality of first quarter, we've seen client interest naturally more focused on higher yielding products such as time deposits or an LCIs.

Despite this dynamic, our market share of demand deposits increased during the quarter and remains a key competitive advantage for us at Inter, particularly on an environment of increasing rates. Our cost of funding as a percentage SELIC reached 53% remains one of the lowest in the industry. Going to page 18 on revenues. There are three key points that we'd like to highlight.

The first point is growth as we deliver an impressive 129% growth year-over-year, reaching BRL1.2 billion in the quarter, an absolute record for us and a value comparable to what we produced in the entire year in 2019 or 2020.

The second point to highlight is the diversification of our revenue base. This ossification is noticeable when breaking revenues in terms of fees versus gross interest income. You can see fees this quarter surpassing the 40% mark, which is something we pride of being the capital light and recurrent nature of the fee business.

On a net interest basis, the share of this will be even more now standing at 58% of total revenues. The diversification is even more pronounced and assuming into the components of interest and fees, which you can see in the pie charts in the right hand side of the page. The third and final point to highlight revenues are marketplace revenues. These are non-financial revenue stream that started only two years ago and is still in the early innings of its development.

These revenues in the quarter reached BRL100 million, representing 19% of our fee revenue or 8% of our total firm revenues. Moving on to page 19 on economics. We're doing an in-depth work to show the analysis on a cohort by cohort basis, which will be ready for filings with you in the next earnings call. On the left hand side of the page, you can see our CAC remained consistently below BRL30 and on the center you can see our ARPAC continues to expand now reaching BRL367 on an annualized basis.

Worth noting that here we are still showing ARPAC deducting interest expense. And finally, on the right hand side, you can see our cost to serve, which has remained at around BRL110 per client. It is worth noting that this CTS is fully loaded. We expect the increase in CTS to be more pronounced going forward. As Joao Vitor mentioned at the beginning of the call, we doubled our employees from 2,000 to 4,000 last year. And this year we extend -- we expect the increase to be single-digit percentage.

Going on to page 20 on gross profit. We can see a clear acceleration through time with the first quarter of each year being lower even seasonality. The exception seasonality for the first quarter of 2021 in the strong government support as a result of the COVID-19 pandemic.

For 2022, we see a same logic of prior years and the remaining nine months of the year we're accelerating the trajectory. On page 21, you can see that given the fragmentation in our loan portfolio and the strength of our deposit base, our NIM has performed well.

We are small yet steady increase across quarters, as we continue re-pricing our loan mix, particularly in payroll and real estate, which take longer to re-price than SME or credit cards and we continue to expand as we are structurally long on SELIC.

On page 2022 to conclude on net income, we deliver another positive result now with BRL27 million in gain. We think that the operational leverage impacting bottom line profitability will be increasingly visible in the second half of this year.

With that said, I'll pass it to Helena, who will comment on the corporate reorganization. Thank you.

Helena Lopes Caldeira {BIO 21222037 <GO>}

Thank you, Santiago, and good morning, and thank you all for joining our earnings call. I want to make a small recap on our corporate reorganization. Last week, on May 12th, we had the approval of the transaction.

In our shareholders meeting, we had an impressive support from our shareholders with over 75% of the float present on the shareholders meeting and 85% of approval rate. With the reorg approved, we will be listed on NASDAQ under the symbol INTR and we will have BDRs listed on B3 with the ticker BIDD31. I will share some of the key dates for the completion of the transaction.

We have a cash out period in which eligible shareholders can elect to cash out their stocks at the price of 19.35 per unit. The cash out option will be capped at 10% of the free float shares, which is approximately BRL1.1 billion if exceeded will have a proration of the shares and shareholders will receive both the cash out for part of their shares and BDRs for the remaining shares.

The cash out period will start while actually started on May 13th and goes to May 20th. On June 17th we have the last trading day of BD shares. So BIDI3, BIDI4 and BIDI11 will stop trading on the 17th and we will have on the following trading day on the 20th, the start of the BDRs on B3.

After two days when shareholders have these BDRs under their custody, they will have the option to break these BDRs into Class A shares. And on the 23rd, we have the initial listing of INTR shares on NASDAQ. I remind you that all BDRs can be broken into Class A shares any time after that.

So with that, I will pass the word back to Joao so that we can go later into. Q&A.

Joao Vitor Nazareth Menin Teixeira De Souza {BIO 20299156 <GO>}

Thank you, Helena. So some closing remarks. But before that, just something I forgot to mention on my initial speech. We are very proud to be the best super app on the West World.

This is very important specific at this moment. So some remarks. We continue to gain market share. That's very important. We have a highly diversified revenue mix, also very important. Our loan portfolio is very highly collateralized.

As I mentioned, we start building that many, many years ago. Our fund based best-in-class again because of our retail unit banking business. We have a full bank license, not the payment account, it's a full bank license, which is very important for us.

We're highly capitalized in liquid. We want to continue expanding our margins as we scale, the employees are there, the business itself are there, the verticals are there, the super app are there, the clients are there.

So we're done. We're just going to gain this market share and this is our luck. So and last as Helena mentioned about our corporate reorg. I really would like to thank our shareholders for supporting us since we IPO back in 2018. I'm very happy that despite of the ups and downs on the economy, the ups and downs on the market. We always had great support from our shareholders and this is very important for our business.

So thank you very much. Now let's jump into Q&A session.

Questions And Answers

Operator

We will now begin the question-and-answer session. Once again for this Q&A session we ask you to write down your question via the Q&A icon at the bottom of your screen. Your name will then be announced and you will be able to ask your question live. At this point, a request to activate your microphone will appear in your screen. If you prefer not open your microphone live, please write down no microphone at the end of your question and our operator will read your question aloud. The first question comes from Thiago Batista sell-side analyst 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 one question about the Inter Shop. We saw a big increase in the net take rate during this 1Q, if not wrong 2% from 1.2 or something close to that. Can you comment if this is a new level of net take rate or if you can see a further expansion of these net take rates? And my second question is about the asset quality. We saw a sharp increase in the NPL ratio during the quarter. What we can expect going forward in terms of NPL ratio for Inter?

A - Joao Vitor Nazareth Menin Teixeira De Souza {BIO 20299156 <GO>}

Thiago, Joao Vitor speaking. Thank you for your question. I'm going to cover the Inter Shop and later on Alexandre will cover the NPL ratio. So on Inter Shop. It's interesting because we hold some meetings with some investors last week and I was telling them that when we began Inter Shop, which is only two years from now on, we are -- we were almost backing for the retailers to be on our platform and we're almost backing for the clients to try the platform and to buy things online. Now things are different. We see the retailers looking for ourselves to connect their products in our super app. We have a very good capability of delivering them conversion on sales to skip them. We are cost for them. So it's a very powerful combination and therefore we can charge more on the take rate side. Also on the cash back, we see many clients with current clients using our platform and therefore we don't need to pay them as much cash back as we have been paid. The combination of these two trends equals to a better net take rate, which I believe that this is the trend going forward. Of course, we might have ups and downs. It's normal, but the trend is positive. We think that we can with time to aim on a 4% take rate net take rate for the Shop. That's what we're working to achieve. We're very excited with this initiative. We see the retailers look for us more and more and we see the clients get used to buy things on Inter Shop. So this is the outcome and what we foresee for our net take rate going forward, positive trends, improving power over power. That's how excited we are with Inter Shop. Alexandre going to cover the NPL question.

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

Thank you, Joao. Thank you, Thiago for the question. Thinking about NPLs and delinquency. First, I'd like to say that credit quality came along with our expectations. So with the macro deterioration that we have seen in the overall, it was widely expected that we and the market would increase in delinquency. In our case specifically for credit cards, that is our non-collateralized type of credit. And it came this way. So we did see this increase on an adjusted basis from 6.5 to 6.6. So it's a relatively low increase given the actions that we have taken mainly last year in October and November. We think our position to face this scenario is very positive. So we consistently drive the strategy of having the collateralized portfolios. Close to 75% of our total exposure today is collateralized. And having said that, going forward, we should deteriorate less than the consumer banks as we have as we have seen this quarter as well. Coverage ratios are healthy. And so having said all this, we're ready to navigate through the next quarters in terms of where NPLs could go. I would prefer to wait and see Thiago because we have seen in the past, mainly in 2020, that different government incentives, for instance, have prevented the NPLs from going up. In the first quarter of 2020, a lot of the banks made things like very large additional provisions, thinking that things would go bad and think things did not go bad. Actually they went well and NPLs behaved super well after that. That's why we are working a lot to prevent NPLs from going up. Doing a lot of -- doing our homework in all the credit lines. And we wait and see what happens in the upcoming months and quarters. Thank you.

Q - Thiago Batista {BIO 15398695 <GO>}

Thank you, Joao. Thank you, Alexandre.

Operator

Okay. Thanks for your question. And the next question comes from Yuri Fernandes sell side analyst from JPMorgan. Yuri, we are now opening the audio, so that you can ask your question live. Please go ahead.

Q - Yuri Fernandes

Thank you everybody. Thank you, Joao, Helena, Alexandre, everybody. I have a first one on capital. We saw some decrease on your core active Q1 this quarter about 900 bps. We saw some increase in intangibles. So just checking if this is related to USEND. If you can comment a little bit on your capital position, that's the first. And I have a second one regarding operating leverage and profitability. My question is, if you are close to the inflection point here, because we are seeing, you know, you re-pricing loans, I guess you are now re-pricing some credit card products, headcount is stabilizing and other administrative expenses are growing at a more controlled pace quarter-over-quarter. So my question is what you expect for profitability in the second half like if you can provide any kind of guidance for us here for 2022 or 2023, that would be helpful. But I just want to understand a little bit more about this operating leverage. Where are we at that and where should we start to see, you know, better results here? Thank you very much.

A - Santiago Stel

Thank you, Yuri. Santiago here. I'll take the capital part of the question. So, yes, our CET1 decreased by nine percentage points. Four of those nine were related to credit growth and five points were from USEND. We assume that goodwill from the transaction, the full impact of the goodwill upfront, even though there is a deferred payment through an earn-out or was able to take an aggressive stance there and absorb it all at once. We don't expect more impact from USEND this product offering will be transactional with no credit involved going forward. And then on the capital base remaining 35% of CET1 we think this is a good cushion we have with several times a lot of the average of the market and growing for several years plus on the profitability point.

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

So, yes. Hi, Yuri. Well, regarding operational leverage and profitability, we actually we see that this is the trend going forward. We understand that we are in the tipping point in which we have presented a lot of growth over the past years. And we have a lot of room to show operational leverage going forward, both on the revenue side and on the expense side. On the revenue side, we will continue to see ARPAC increasing as the customer base matures. We have -- we see that older cohorts of clients have a higher average revenue per user, which will become more -- will become higher on average as we see more of -- as we add less customers compared to the total customer base. What we also have on the revenue side is the increase of market share and scale in the products that we have, right. Over the past years, we have been launching many new products and initiated many new verticals and such as Inter Shop, for instance, that we answered a question on -- in the previous question. But what we see is that the maturity of the products also help to drive revenues up. When it comes to the expenses, there is operational leverage coming from basically everywhere. If we think about like personal expenses, for instance, last year we grew a lot. We basically doubled the employee base and this year will be a marginal growth. Since we have already built the infrastructure to keep growing forward. We don't have an actual guidance like to give to the market right now for the second half of the year for next year. But what we can say is that operational leverage will start getting more significant going forward and this is what we expect.

A - Santiago Stel

And if you really complement two points on this. On the ARPAC if you convert it to monthly and dollarize it. It's $6 per month per active client and net of interest expense because our analysis shows that this more than double time and half of our clientele enter the platform in the past 12 to 15 months. So the natural evolution of that clientele and becoming more profitable alone will have an impact on revenues. And the second point is the acceleration of our product adoption. Before it took us ten quarters to reach 3.5 half products for clients, and now it's taking us two quarters. So this is an acceleration on ARPAC expansion in the new cohorts.

Q - Yuri Fernandes

Thank you, Helena and Santiago. Santiago, just a follow-up briefly here on capital. I guess you're asking me here about cash-out and debt, right? So what's the capital impact from that, right?

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

So, yes, Yuri, I'll get on those. So we have for the payment of the cash-out, we have hired a debt with some financial Brazilian financial institutions. One of the option is to do a capital reduction to pay for that. But that is not the only or not the main option that we have. So the idea is to avoid this capital rate reduction, not having a capital impact on capital given the cash-out.

Q - Yuri Fernandes

Super clear, Helena. Thank you very much.

Operator

Thanks for your question. And now the next question comes from Tito Labarta. Tito, we are now opening the audio so that you can ask your questions live. Please go ahead.

Q - Tito Labarta {BIO 20837559 <GO>}

Hi. Good morning. Thanks for taking my questions. Also a couple of questions. One, if you can give some guidance in terms of what you expect for loan growth, particularly in the different segments. You've highlighted you have a relatively collateralized loan portfolio. Are those the segments that you think will grow faster? How do you think about the uncollateralized outlook in terms of growth, particularly with the asset quality deterioration? And then second question, following up a bit more on the profitability question that Yuri asked. And Santiago you mentioned if you dollarize and converted to months these around $6. Any color where is some of your more mature clients in terms of that ARPAC or what they're generating today on the more mature client base and also any guidance or target for where your return on equity can eventually get to once you're kind of on a sustainable level of profitability. And how long do you think it could take to get there? And I know it could be some time away, but just how you think about that return on equity on a longer term basis. Thank you.

A - Joao Vitor Nazareth Menin Teixeira De Souza {BIO 20299156 <GO>}

So, Tito, Joao Vitor speaking thank you -- thank you for the question. I'm going to start from the last one about the ROE. As Helena mentioned we are not giving guidance to ROE. And actually it's hard for us to predict that the ROE is going to be X points within three quarter or first quarter or whatever. But what I like to reinforce is that I have a good balance between NII and fee income. That's the first thing to improve ROE. So going forward with the revenues improving on both sides, we don't need to have a big equity to sustain our revenue base of growth. So this is very important. Also, as Santiago mentioned, we see dilution on cost to serve, mainly because of the dilution of the personal expenses and mainly because I would say that all of the products that we are offering and that we want to offer to the clients. There we already put 1,000 plus 1,200 plus IT guys to develop and to implement and to deploy, as I mentioned, the best super app on the West World. It's there. The clients are kicking in. They are coming very, very good CAC. So it's a matter of time for the profitability to improve. So this is one thing about ROEs. Your first question regarding the growth on the credit portfolio. As Santiago showed in the highlights of the credit portfolio. We have if you think about expanded credit portfolio, 65 of these are collateralized. And if you think about without putting the transaction of the credit card, we have up to 95% collateralized. This was always a mindset for ourselves, for myself, I would say for our board of directors to have a credit portfolio, very well balanced. We don't want to be a mono liner or a dual liner. We will not be a mono liner or a dual liner. We want to have five, six, whatever different verticals. And with that said, we do have a very small penetration amongst this products, mostly on the collateralized one, payroll and mortgage. So we foresee that we'll keep growing around 50% for 2022, should slow down from what we did 2021 for obvious reasons. But we have room to keep growing on a 50% basis. Maybe next year we can do even more than that. We have CETI. We have equity to support, we have good funding, we have other products and most of the products are collateralized. So we're comfortable by growing our credit portfolio, the underwriting, 50% basis this year and maybe more than that for 2023, depending on the macro outcome. So that's about the growth on the credit portfolio. And Santiago is going to cover I think that your second question was about the ARPAC.

A - Santiago Stel

Tito, good morning. Thank you for your question. So in ARPAC expansion a few topics. One, the $6 per month, that's on a net basis. I'd like to reiterate that. That's the interest expense. We see in the mature cohort is that more than doubles 2 to 2.5. And we'll add more color as I mentioned in my initial remarks for the next earnings call on the cohort analysis. But the expansion of that ARPAC has to do with us gaining market share and core products. And for that we added on page seven to facilitate the analysis, the evolution of our market share and core products. And we see that we have already been gaining significant traction on several products and now it's a matter of continuing that trend, sustaining a decent asset quality, which we intend to say as Joao Vitor mentioned our mix diversified makes our loan portfolio be defensive or lower beta in the context of increasing NPLs with that our ARPAC should continue to trend higher as we add percentage-wise less clients and the ones we've added on the past.

Q - Tito Labarta {BIO 20837559 <GO>}

Great. Thank you, Joao Vitor and Santiago. That's helpful. Just one follow up on the loan growth you mentioned on 50% and I assume that's one that collateralized. How about on sort of like on the unsecured? Just curious how you think about growing that portfolio and should that grow less than that 50%? Any color on that?

A - Joao Vitor Nazareth Menin Teixeira De Souza {BIO 20299156 <GO>}

So, Tito, Joao Vitor speaking again. Yes, look, for the previous year, we expanded more on the unsecured on the credit cards. So we gain more market share on credit cards. From now on, actually, from the end of 2021, we decelerated the growth for the credit card. So mostly on -- at the time of the concession -- at the time of the -- own part of the client. So we're trying to cherry pick more clients for credit card underwriting clients that are with us for a longer period of time. That's what we would be doing for the credit cards. Having said that we believe that credit cards are going to go accordingly to the other types of credits, mortgage, payroll, SMEs and the agro business. And therefore we think that the breakdown, I would say by the end of the year or maybe 1Q 2022 is going to look pretty much the same as we have today, the fragmentation of the credit portfolio. So we don't see any of these five different verticals gaining more market share in a fast pace going forwards. I believe that all of them are going to grow pretty much at the same end, and we want to keep this good balance between the five of them. So that's the outlook, the outcome for the next I would say two, three, four quarters or even more, maybe one or two years. I had to kind of see they're pretty much the same breakdown between the credit portfolio.

Q - Tito Labarta {BIO 20837559 <GO>}

Okay. Great. Thank you very much, Joao Vitor.

Operator

Tito, thanks for your question. And now the next one comes from Neha Agarwala sell side analyst from HSBC. Neha, we are now opening the audio so that you can ask your question live. Please go ahead.

Q - Neha Agarwala {BIO 17722501 <GO>}

Thank you so much for the opportunity for asking the question and congratulations on the results. I wanted to talk a bit more about credit cards. There has been a slowdown in terms of loan growth for credit cards and SMEs both during this quarter. So how do you see that loan growth going forward? And could you please clarify the 50% loan growth that you mentioned? That's for the book as a whole for this year? Or is that for just the secured lending segment? And in terms of credit cards even in terms of the number of credit cards use during the quarter and the TPV even that was quite weak sequentially despite the seasonality. And that also had an impact on the fee income that led to modest fee income growth in my view. So could you shed some light on that as to what is your strategy in that regard and what should we expect in the coming quarters? And then I ask my next question.

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

So thank you for your question. So on cards, as I mentioned, when I was going through the growth by product, we intentionally decelerated the growth and now the growth of cards during the quarter was in line with the average of our entire loan growth. And that was intentional to recalibrate and strengthen and underwriting models this quarter in the context of increasing delinquency. We are doing great to new clients, but in a much smaller percentage that we are doing before and we're prioritizing credit on cards on the existing clients. And that naturally had an impact on fees and to a point on the growth and related to Tito's questions before. We expect, unlike last year where the growth on cards was significantly higher than the average loan growth. We had a much more balanced growth and different products for this quarter trying to maintain asset quality within acceptable levels for us. So the whole strength that we see in our loan portfolio, as Joao mentioned is the diversification and the resiliency. And for that to continue playing out particularly in a scenario of increasing delinquencies as we have this year. We don't intend to grow the loan portfolio a faster pace than the average of our loan. We do want to gain market share, so we'll grow at a higher rate than the average of the market across products. But that growth will be more balanced across each of the products.

Q - Neha Agarwala {BIO 17722501 <GO>}

And the 50% loan growth is for the entire loan book?

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

Yes. It's for the entire loan book.

Q - Neha Agarwala {BIO 17722501 <GO>}

Okay. On the provisions, there was a big jump in the cost of risk during this quarter. And like you mentioned, there was no material deterioration in asset quality that we've seen. So any reason why there was a slight pickup in defaults and why the provisioning accelerated during this quarter? And is this level like around 5% cost of risk? Is that what we should expect for the year?

A - Santiago Stel

Hi. Thank you, Neha. So we should we saw growth given by the theory of the evolution on the NPL that we saw. And we have we reached this 5%. We should navigate through the same level throughout the year. So shouldn't see additional growth as we move forward.

Q - Neha Agarwala {BIO 17722501 <GO>}

Okay. And my last question is on the international business. Previously, you were you gave a bit aggressive guidance in terms of what your expectations is in terms of contribution of international businesses. Could you shed some light on what is your expectation now, how you're seeing the -- your services develop outside Brazil?

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

Yes. So in the international business, the USEND transaction closed this January, and from January onwards, it's part of the Inter ecosystem. And the core of the business is remittances of Brazilians that live in the US and send money from the US into Brazil. This is a high revenue product with a high currency. On average these individuals send funds to Brazil twice per month. We want to build an entire ecosystem of transactional products into the US, which is something we can do with a very low marginal additional cost which would be absorbed by the US entity. And we intend to migrate our app into US and have a single app. Now there is a USEND app and an Inter app. We'll have a single app in the coming weeks, which will make it seamless for people to operate as they go from one country to the other. The revenue just a sense in 2021 of USEND was close to $50 million. This is a growth that a revenue stream that grows at close to 100% year-over-year. So on a compound basis, it will become significant, but yet it's starting off a lower base. We don't intend to give credit in the short and medium term. It's a transactional value proposition that we want to have and that will be fully integrated into an Inter ecosystem.

Q - Neha Agarwala {BIO 17722501 <GO>}

Okay. Perfect. That's great. Any targets that you have in mind for your international operations or we'll see as it goes?

A - Joao Vitor Nazareth Menin Teixeira De Souza {BIO 20299156 <GO>}

Neha, Joao Vitor speaking. Neha, we don't see any targets. We don't see the need of M&A over there. As I mentioned before, the USEND initiatives is important because we have all the license to run the business the day to day business in 45 plus states in the US. We are going to replicate most of the products that we have in Brazil, the transactional products on that app as well on the single app. So I mean, we don't need to do M&A in order to provide a good value proposition for the immigrants living in the US. So that's not on the table right now.

Q - Neha Agarwala {BIO 17722501 <GO>}

Thank you so much, Joao, and team.

Operator

Thanks for your questions, Neha. And now the next question comes from Otavio Tanganelli sell side analyst 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, guys. Good morning. Thanks for taking my question. Just a real quick one on my end. There was a sizable reduction on the interest revenues, notably on the corporate segment. I wanted to get a little bit of color on that. On a sequential basis, I saw in your spread sheet that you reported there was something around BRL105 million in the fourth quarter, which declined to BRL86 million in the first quarter. Why don't you get the rationale behind that, especially because we're still in a scenario of rising interest rates. So there was something puzzling to me? Thank you.

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

Hi, Otavio. Thank you for the question. Alexandre speaking. So the SME portfolio for us has a lot of seasonality. So very short term portfolio and it typically has a fourth quarter that's very strong given by all the activity that we see in the country in the last quarters and it's really seasonal. So the good part of it is that it enables us to re-price the portfolio very, very fast. So as we're navigating these environment of having SELIC hikes or on every coupon meeting. Having this quick turnover of that portfolio allows us to re-price it. And we should be we should have a recovery in the upcoming months. Thank you.

Q - Otavio Tanganelli {BIO 20615779 <GO>}

Thank you, Alexandre.

Operator

Thanks for your question, Otavio. And now the next question comes from Thiago Batista sell side analyst from UBS. Thiago, we are now opening the audio so that you can ask your question live. Please go ahead, Thiago.

Q - Thiago Batista {BIO 15398695 <GO>}

Yes. Hi, guys. I have one question about the agreement between Inter and MasterCard, if not longer, you guys recently renewed this agreement. Can you elaborate a little bit on this agreement and how we should see the impact of this agreement on the P&L of Inter?

A - Joao Vitor Nazareth Menin Teixeira De Souza {BIO 20299156 <GO>}

So Thiago. Hi, Joao Vitor here. First of all, I'm very proud to be a partner for MasterCard since 2015-'16. They were the first one to I would say accept Inter at the time we had a business plan to have 100,000 clients by 2020 and they accept us on their platform and start being a MasterCard issue. And since then, we have been growing as much, much more than ourselves. Inter and MasterCard expect and therefore we have been doing every 24 months, 18 months, we have been renewing our agreement with them. We just did that on January, and you're going to see most of the impact it's going to be I would say a good impact. It's a way better deal than they want to sign in I think 2019 think something around that 2020 is going to be a way better deal for us and you're going to see that on the savings. We want to reduce the savings that we have with MasterCard. This is a better way for us to put the agreements running instead of just getting rewards from MasterCard, which will cost us tax is important. So you see mostly through they're reducing the cost to be an issue for MasterCard for our 20 million plus clients. That's how we're going to see and again very proud to partner with MasterCard since the beginning of our retail banking business.

Q - Thiago Batista {BIO 15398695 <GO>}

Very clear. Thanks.

Operator

Thanks for your question, Thiago. And now the last question for our conference call comes from Flavio Yoshida sell side analyst 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, everyone. Thanks for the opportunity to ask questions. So my question is regarding client adds. So client adds was consistently trending up last year until the 4Q. When you guys added almost 3 million clients in the 1Q, it decreased to 2.3 million clients. And I was wondering what should we expect for client adds going forward? Was there any seasonality in the 4Q or should be, you know, the 2 million client adds more recurring level.

A - Joao Vitor Nazareth Menin Teixeira De Souza {BIO 20299156 <GO>}

So, Flavio, Joao Vitor here. Actually maybe there is some miscommunication here. We didn't have a worse 1Q than 4Q 2021 probably is related to the USEND clients that we put the total clients. But when you think of our pace of on-boarding new clients in Brazil every single month, every single day, we have the best quarter ever. And not only that, we have the best quarter. Not in a good time for adding clients with the holidays, carnival and everything. So I believe that, as I mentioned before, Flavio, we see the competition slowing down. It's not that frenzy as it used to be maybe six, 12 months ago with a lot of just trying to just bring more clients at any cost. We see things slowing down, so we're very confident that we'll keep growing our business. I would say you can see growth quarter-over-quarter. Of course, we're not going to grow on the same compound days because it's impossible, but you'll see growth quarter-over-quarter. But I would say a better quality of growth, lower CAC, maybe better clients and more engagement among these new clients. So that's the trend we're very comfortable on the level and the kind of clients that we're bringing to the platform. So that's the outcome for the rest of the year for sure.

Q - Flavio Yoshida {BIO 20300800 <GO>}

Okay, great. Thanks.

Operator

Thanks for your questions, Flavio. And this concludes our question-and-answer session. I would like to run the conference back over to Mr. Joao Vitor Menin for his closing remarks.

A - Joao Vitor Nazareth Menin Teixeira De Souza {BIO 20299156 <GO>}

So thank you, everyone. Thank you, the audience, for being with us again. Thank you my colleagues here Alexandre, Santiago, Helena. Thank you for the 4000 plus employees at

Inter that are working hard every single day to put this ahead of the competition. As I mentioned for us to be able to launch this amazing company, this the best super app on the West World. And I'm very proud of that. I mean we based in value and achieved that. It's something amazing and we're very committed to the business doing our best. And I believe that we will get there, we get on the profitability that sometimes our shareholders they asked we will get on the growth. So very excited with, not with the quarters, not with the years to come and again the best is yet to come. We built a big franchise, big platform. The clients are jumping in. We are very excited with what we have ahead for our business, for our company. Thank you very much, everyone and see you within three months. Thank you. Bye-bye.

Operator

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