Nu Holdings Q4’21 Conference Call

Operator: Good afternoon, ladies and gentlemen. Welcome to **Nu Holdings conference call to discuss the results for the fourth quarter 2021.** A slide presentation is accompanying today's webcast, which is available in Nu's Investors Relations website: www.investors.nu in English and www.investidores.nu in Portuguese. This conference is being recorded and the replay can also be accessed on the company's IR website.

This call is also available in Portuguese.

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Please be advised that all participants will be in listen-only mode. You may submit online questions at any time today, using the Q&A box on the webcast.

I would now like to turn the floor over to **Mr. Federico Sandler, Investor Relations Officer at Nu Holdings** you may proceed.

Federico Sandler: Thank you very much, Operator. Good afternoon everyone and thank you for joining our earnings call today. If you have not seen our earnings release, a copy is posted in the Results Center section of our investor relations website. With me on today's call are David Velez, our Founder, Chief Executive Officer and Chairman, Guilherme Lago, our Chief Financial Officer, and Youssef Lahrech, our Chief Operating Officer. Additionally, Jag Duggal, our Chief Product Officer, will join us for the Q&A section of the call.

Throughout this conference call the Company will be presenting non-IFRS financial information, including adjusted net income. These are important financial measures for the Company but are not financial measures as defined by IFRS. Reconciliations of the Company's non-IFRS financial information to the IFRS financial information are available in our earnings press release.

Finally, before we begin our formal remarks, I would like to remind everyone that today's discussion might include forward-looking statements. These forward-looking statements are not guarantees of future performance and therefore you should not put undue reliance on them. These statements are subject to numerous risks and uncertainties that could cause actual results to differ materially from the Company's expectations. Please refer to the forward-looking statements disclosure in the Company's earnings press release.

Now, I would now like to turn the call over to David Velez, our Founder and CEO.

David Velez: Thank you Fede and thank you all for joining us today. This is our first earnings call as a public company and the first time we speak directly with a number of investors. We very much welcome this opportunity and look forward to a transparent and constructive dialogue with all of you over many years to come.

While today we will be discussing a strong quarter with important improvements across key metrics, many of you on this call may be new to our story. So, I would like to take this opportunity to talk a little bit more about NU, including our values and mission, our growth strategy and our powerful ecosystem. Subsequently, Guilherme Lago, our CFO, and Youssef Lahrech, our COO, will take you through our performance in Q4 2021, after which time we’ll be happy to answer your questions.

Let me start by telling you about our IPO process.

NU was born with the mission to fight complexity to empower people. And we have been doing so relentlessly in Latin America since we were founded in 2013. However, how we accomplish our mission is just as important as accomplishing the mission itself.

Our IPO was no exception. We certainly wanted to accomplish a very successful equity offering, raising approximately US$2.8 billion dollars, but we wanted to do so in a way that was aligned with our core values. Aligned with our value of always putting our customers first and working backwards from there. And aligned with our value of challenging the status quo.

How have we accomplished these goals in our IPO? First, we decided that we needed to allow all of our customers to participate in it, irrespective of the then prevailing conventional wisdom that a public equity offering targeted at Brazilian retail investors was both unnecessary and inconvenient. We structured our IPO as a concurrent dual-listing in both Brazil and the U.S., allowing for all of our Brazilian retail customers to invest in NU. It was the first such dual-listing in the history of the country.

Second, we decided to honor the trust placed in us since our earliest days, by gifting a piece of the company in the form of one Brazilian Depository Receipt (a BDR) each to millions of our customers in Brazil. More than 7.5 million customers joined this program, which will help multiply the number of Brazilians financially included in the investment world. It was the largest Directed Share Program (DSP) ever made globally. And the innovation in capital markets did not stop there. We also offered shares to our customers in Brazil, where over 800 thousand made a paid reservation. This represented the largest number of retail investors to participate in a Brazilian IPO ever.

The IPO marked the beginning of another chapter as we mature as a company, and most importantly, it will enable us to expand, deepen and strengthen our relationships with our customers. We could not be more excited with the opportunities ahead of us.

We will continue to pursue these opportunities relentlessly. And we will continue to assess these opportunities based on their potential to accrue value to NU and its shareholders in the long-term. We are and will continue to be long-term focused and, if needed, will put the long-term interests of the company ahead of short-term results.

Since the very beginning we have seen ourselves as a technology company that happens to be in financial services, and not a bank that has a better website or a better app.

Our strategy is focused on four main differentiating pillars:

1. We have a mission-driven culture. We are on a mission to drive much more inclusion, competition and efficiency into financial services in Latin America.

2. We are a customer obsessed company and spend a lot of time understanding customer pain points, then working backwards to build phenomenal user experiences.

3. We are a technology company at heart. We build our own technology, including our proprietary core banking system and our programming language, and that gives us the ability to control our destiny, and continue scaling our platform with lower costs.

4. And finally, since the beginning, we have been an AI and Machine Learning first company. We initially applied these technologies to a very large market, unsecured credit in Latin America, and now we have applied these capabilities to different areas of the company. We have always thought that strong competitive advantages in data science, machine learning and AI were going to be relevant competitive moats, and we believe we maintain an edge on these fronts.

This all translates into unique customer experiences that are simple, convenient, low-cost and empowering.

We have built one of the largest digital banking platforms in the world with nearly 54 million customers in Brazil, Colombia and Mexico, and are still growing at a pace of about 2 million new customers per month.

I would draw your attention to 3 things in the chart on this slide:

1. First, NU started with a credit-first approach, beginning with credit cards. Starting with credit is hard. It requires you to develop proprietary credit underwriting capabilities, a state-of-the-art data platform, and local currency funding. But we believe it's a worthwhile path to take. Consumer credit is where 70%+ of the profit pool of the industry is. Since the launch of our company in 2013, we have navigated extremely difficult macroeconomic environments, including the largest recession in Brazil's history and a pandemic, which forced us to develop robust risk systems and a generally conservative underwriting approach.

2. Second, most of our customers come to NU organically, through word-of-mouth, allowing us to scale fast, while having one of the lowest customer acquisition costs in the industry. This is a testament of the unique customer experiences we deliver - our NPS is in the 90s, which is among the highest - if not the highest - in the financial services industry globally.

3. And, third, over 5 million of our customers did not have a bank account or a credit card when they became our customers. This shows that we are helping grow the size of the market - we are not simply gaining market share from incumbent players.

We think about our business model as a two-part ecosystem. On one end are 52M+ consumers in Brazil, Colombia, and Mexico. On the other end are 1M+ small businesses, or SMEs.

Our products serve both parts of this ecosystem and are composed of:

1. Proprietary solutions that we build in house, such as our credit cards, our personal loans and our mobile payment solutions; and

2. Third-party solutions provided by first-class product partners, such as our insurance, secured loan, e-commerce and digital products & services.

We expect that these solutions, both products and services, will expand fast, while the 2 sides of the ecosystem continue to grow in both size and engagement.

And we are moving fast on that front. We enhanced our marketplace initiative as we expanded our platform through strategic partnerships. We are pleased to report that we ended the year with over 20 partners across 9 different verticals. During the fourth quarter we onboarded large financial services and non-financial services players including: Magalu, Creditas, Via Varejo and Shopee.

We are also reaching important milestones in our international expansion. Our Nu model has proven to be exportable, as we continue to beat our most optimistic forecasts.

In Mexico, we ended Q4 2021 with 1.4M customers, over 7M applicants, and a record-high NPS of over 90! We believe we have already become the largest new credit card issuer in Mexico at that time. In Colombia, the third country that is part of our international expansion, the results are equally encouraging, as we have learned to launch in a new country more effectively and efficiently over time.

Nu has many different growth vectors to fuel its expansion over the coming decade, from continuing to grow our customer base, to offering new products, to geographic expansion. And we are in the very early innings of this journey.

There is also a significant opportunity to further monetize our customer base. This will happen through both additional upsell and cross-sell initiatives, including proprietary and third-party products. And this monetization will be realized using a low-cost operating platform, highlighting the high operating leverage of our business model.

Now, I'd like to turn the call over to Guillherme Lago, our CFO, and Youssef Lahrech, our COO, who will review our performance in the fourth quarter of 2021 in more detail.

Guilherme Lago: Thanks, David. In the fourth quarter and the full year of 2021, we delivered a very strong set of operating and financial KPIs. We did so by leveraging our simple, yet powerful, value generation formula:

- First, continuing to grow our base of active customers in Brazil, Mexico and Colombia;
- Second, continuing to increase the monetization of our customer base by expanding the average revenue per active customer (or ARPAC) as we introduce more products and features, and our customer cohorts mature; and
- Third, delivering all this growth while maintaining one of the lowest-cost operating platforms in the industry.

We believe that NU has very high operating leverage potential driven by deep cost advantages across the four traditional cost pillars of financial services: (i) low customer acquisition cost, (ii) low cost to serve, (iii) low cost of risk and (iv) low cost of funding. These cost advantages are expected to strengthen as our ecosystem expands.

Now, let's take a deep dive into the quarterly results of our business.

During the fourth quarter of 2021, we added almost 6 million customers, mostly coming through organic channels and representing over 60% YoY growth. More importantly, this growth has **not** come at the expense of customer engagement. On the contrary. Our monthly activity rate grew from 66% in Q4 2020 to 76% in Q4 2021, while we added over 20M customers to our base in the period.

We are not in the business of just collecting social security numbers; we are in the business of becoming the primary banking relationship of our customers, both consumers and SMEs.

As can be seen from the three charts on this slide, the compounding effect of (1) higher engagement in our customer base with (2) more products and features in our ecosystem has proven powerful. It has driven the monetization of our customer base, as reflected in the expansion of Average Revenue Per Active Customer, or ARPAC.

During the fourth quarter, we continued to achieve ARPAC expansion - our average ARPAC reached $5.6/month in the period. But the ARPAC of our more mature cohorts already exceeded $15/month. We expect this trend to continue as customer cohorts further mature, and as we add new products and features to our ecosystem.

The combination of more customers, more **active** customers and higher ARPACs enables us to grow revenue at triple-digit rates.

In the fourth quarter of 2021, our revenue reached $636 million, increasing year-over-year by 224% on an FX neutral basis, mainly driven by (i) the increase in transaction volumes, and (ii) strong growth of our interest earning portfolio.

Let's move on to purchase volume, a key KPI to track and understand the progress of our cards business over time. During the fourth quarter of 2021, purchase volume reached $14 billion, growing almost 100% YoY on an FX Neutral Basis.

The strong results in purchase volume during the quarter are a result of a growing and engaged user base, the continued maturation of our cohorts, and the increase in usage across our product portfolio that includes credit cards, prepaid cards, secured cards, and Ultraviolet cards.

Let's have a look at the performance of our credit portfolio, another key driver of our revenue growth. During the fourth quarter of 2021, we continued to post above-market growth rates in our core consumer finance products, credit cards and personal loans.

In the 3 months ended Dec'21, our credit card receivables portfolio grew by (i) 21% QoQ and (ii)78% YoY, both on an FXN basis. We estimate we outpaced the market in Brazil by 2 times.

Also during the fourth quarter, our Personal Loan portfolio grew by (i) 58% QoQ and (ii) 7x YoY, both on an FX neutral basis. We estimate our market share, in terms of personal loan portfolio, expanded from less than 1% in Dec20 to approximately 4% in Dec'21. I would also like to point out that we are still in the very early days in Personal Loans.

Now let's take a look at our deposit base, which continues to attract very strong net inflows.

One of the key pillars of our business model is that we continue to fund our operations primarily with local currency retail deposits. We believe that having local currency retail deposits at competitive rates is key to funding a consumer credit business at scale, and superior to other sources of funding, such as wholesale funding and securitization.

As we continue to witness the strong trend of people and SMEs shifting from branch-based banking to digital-based banking, our deposit franchise continues to grow at a steady pace. As of the fourth quarter of 2021, our deposits reached almost $10 billion, a year-over-year growth rate of 87% on an FX neutral basis, with an average funding cost lower than that of the risk-free rate in Brazil, or CDI. Additionally, given the growth in our deposit franchise, we can comfortably cover our interest earning portfolio with our retail deposits.

Moving on, let's take a minute to look at our cost to serve per active customer, a key pillar to appreciate the operating leverage of our business model over time. This metric has decreased over 20% year-on-year as we gain operational efficiency resulting from our increasing customer base. It is a guidepost that gives us the confidence that we are on the right track in the pursuit of strong operating leverage, as we continue to see ARPAC outpacing cost to serve per active customer.

In Q4 2021 and in the full-year of 2021, we posted record gross profits of $227M and $733M, respectively.

While gross profit margins remained stable for the full year, we saw lower gross margins in the last quarters of 2021, as a result of the very strong growth in our interest earning portfolio in these periods and our loan loss provisioning methodology that front-loads the recognition of provisioning under IFRS.

Moving on to Adjusted Net Income, let me quickly walk through the adjustments we made to GAAP Net Income to arrive at this metric, in order to give you a better sense of the recurring profitability of our business. We define Adjusted Net Income as profit attributable to our shareholders, adjusted for expenses related to share-based compensation and our IPO, as well as the tax effects applicable to these items.

As you can see, and as a result of our growing scale, we are beginning to reap the benefits of operating leverage on an adjusted net income basis. This is an important datapoint, as it gives us the confidence that we are on the right trajectory with our earnings formula.

For a detailed reconciliation between our net income and our adjusted net income, please refer to the appendix of this presentation.

Now, I'd like to turn the call over to Youssef, our Chief Operating Officer, who will walk you through our credit underwriting.

Youssef Lahrech: Thank you, Lago. Let me walk you through a few key indicators that track asset quality and the overall health of our credit portfolio.

In Q4 2021, credit performance remained strong - with delinquencies normalizing along expected lines, but still below pre-COVID levels (adjusted for portfolio mix between Credit Cards and Lending).

We expect this normalization to gradually continue and reach pre-COVID levels for both Credit Cards and for Lending. We are underwriting based on these **rising** loss expectations as a baseline, and then requiring that every loan that we originate be resilient to risk worsening on top of that, resulting in cohorts that are able to withstand **approximately a doubling of risk**, depending on the product and segment.

Before I go further, I would like to recap the impact that Expected Credit Losses, or ECL, as a loan loss provisioning methodology has on a consumer finance business with high growth rates, as is the case of our credit card and personal loan businesses.

- Per IFRS 9, loan loss provisions have to be recognized when a loan is granted, even before any revenue associated with that loan is accrued. This results in an intentional **timing** mismatch between revenues and costs.
- For this reason, the higher our growth rate is, the higher the provisions we have to book. And as Lago said, this negatively impacts gross profit and gross profit margins during periods of high growth.

As growth rates normalize, vertical gross profit margins are expected to converge over time towards those of mature cohorts.

Moving from this basic concept to our actual experience, the charts on this slide show the average evolution of risk-adjusted margins (or RAM) for our credit card and personal loan cohorts. We define risk-adjusted margin as revenues minus funding cost and cost of risk, expressed as a percentage of revenues.

As you can appreciate, in earlier months, risk adjusted margin is negatively impacted by the accounting recognition of non-cash upfront loan loss provisions. Then, as revenue begins to accrue, RAM quickly expands and converges towards a 60%+ level for both products, with a payback period that is around six months or less. We are very deliberate in terms of which credit products we manufacture ourselves vs. distribute. We tend to prefer products that have shorter duration and are more data intensive, as this plays to our underwriting strengths.

Having shared these perspectives on credit and asset quality, let me now turn the call back to David Velez, our Founder and CEO, for concluding remarks.

David Velez: Thanks, Youssef. We have delivered another great year that has seen effectively all our metrics improving and accelerating, and our successful IPO has given us a strong footing to pursue our strategic milestones in 2022 and beyond. We believe the secular market trends that are accelerating our growth, such as significant migration towards digital financial products and growing financial inclusion across the region, remain as strong as ever, and we remain focused on disciplined execution against our priorities and in continuing to advance our business.

We look forward, as always, to keeping you updated on our progress next quarter, and we'd like to take your questions now.

Operator: We will now start the Q&A session for investors and analysts. If you wish to ask a question, please press the **"Reaction"** button and then click on **"Raise your hand"**. If your question is answered, you can exit the queue by clicking on **"put your hand down"**. Please limit yourself to one question and a follow-up. If you have further questions, please re-enter the queue. You may submit online questions at any time today, using the Q&A box on the webcast.

I would like to turn the call over to **Mr. Federico Sandler, Investor Relations Officer**.

Q&A Section:

Tito Labarta:

Thank you. Sorry, I was on trouble with my computer. But thank you for the call and the presentation and taking my question. I guess my question is in terms of your revenue per client, show some good evolution in the quarter. Clearly, you've been able to grow the loan portfolio.

Any guidance or color you can give on how that revenue per client can grow this year, particularly given, you know some of the macro risk and your ability to continue to grow the loan portfolio and all behind that.

How much of that can come from continuing to grow the loan portfolio and also with fee income growing also at a healthy pace? Do you expect any color on how the mix would evolve between the loan fees to benefit the revenue pipeline? Thank you.

Guilherme Lago:

Hi, Tito. Thank you so much for your question, it was certainly a great one. And the evolution of the average revenue per active customer is something that we are monitoring know very closely. If you go to slide 13 of the earnings presentation, you will see there the evolution of our ARPAC or average revenue per active customer. And you can see that it is going up across all of the cohorts.

Our average all pack has achieved about US$5.6 per month for active customer coming from about US$4.9 last quarter. But more importantly, the more mature cohorts are already operating at over US$15 per active customers per month.

And in fact, if you take a look at the customers who have our three-core products credit card, bank account and personal loans, there are tech are already above US$3 per active customers per month.

So, we think that our pack will continue to go up over the course of 2022 and going forward as a result of two things. First, and it is something that is not necessarily fully appreciated by many investors, is the maturation of the cohorts.

As the cohort season, as the cohorts mature, you can see that we become the primary banking relationship of more and more of those customers, and we increase the usage and engagement and the purchase volumes with our core products.

And then secondly, it is the cross-sell, as we launch new products, as we launch new features, we actually increase this average revenue per active customers. In 2022, we do expect that we will continue to pursue a very strong growth in both credit products as well as noncredit products.

And we believe that credit card personal loans will continue to play a key role there, but other products will start to kick in more aggressively in their contribution to the ARPAC. We are not, however, providing guidance on the ARPAC levels for 2022 and going forward.

Tito Labarta:

Great. Thank you, Lago. That is very helpful. Maybe one follow-up. You are pointing to slide 13 in the presentation, right? In the past, though, the cohorts you look like, so you know, seven months to get to that US$15. But I guess the new cohorts to be getting there may be a bit faster.

Is that fair to assume that, you know, with time that you can shorten the amount of time to reach that US$15 ARPAC per client is, you know, you kind of continue to grow. It may be during the period from five years to, I do not know, three four or any color on the timing that you think it could take to get US$15 ARPAC.

Guilherme Lago:

Yeah, it is a great question, Tito. And I think it is somehow an unfair comparison across the cohorts because the earlier cohort, we only had no bank accounts and credit cards. So, we had a much more limited product portfolio.

As we launch more products, as we launch more features and as we cross-sell more of those products, as you can see on the slide in the middle of 13, the ARPAC potential and the LTV of our customers go up.

So, yes, it is, I think, reasonable to assume that the customers, the newer customers of the newer cohorts will be able to mature faster with more products than the earlier customers from the earlier cohorts.

Tito Labarta:

Ok, great. Thank you. That is helpful, and congratulations on the strong results.

Guilherme Lago:

Thank you, Tito.

Jorge Cury, Morgan Stanley:

Hi. It is Jorge Cury from Morgan Stanley. Hi, good afternoon, everyone. Congrats on the great numbers. I have a question on your revenue outlook for this year. You beat market expectations on revenues this quarter by around 18%. Is every consensus revenue per active customer beat was around 15% and your net ads were well above what the market was anticipating.

So, as we think about 2022, the current consensus on net revenue is around US$ 2.9 billion. How do you how do you feel vis-a-vis that number? Where do you think are the potential upside risks to the number?

Meaning, what parts of your business are doing better? Do you think you can actually outpace that? And then on the other hand, what do you think are the risks to that number? Where may that number prove to be optimistic? What are some of the things you are looking closely at? That would be incredibly helpful. Thank you.

Guilherme Lago:

Thank you so much for your question. Look, unfortunately, we do not provide financial guidance to the market. We very much appreciate the arguments in favor of guidance. We just believe that its costs outweighed the benefits for the Company at this point in time.

We are and we will continue to be long term focus. And if needed, we will put the long-term interests of the Company ahead of our short-term results. And that is the reason why we have not provided no guidance in order to maintain the culture and the focus of the management team in the long term.

Having said that, we do expect 2022 to be a strong year for us. We think that we are going to make good strides across many products, both credit and noncredit. And more importantly, I think we are going to make very good strides in New Jersey.

The operations that we have launched in Mexico and Colombia have been having very encouraging signs of success. Mexico was the first country that we launched outside after Brazil. We now have, you may have seen, over 1.4 million customers in Mexico as of December 2021.

We believe that we have already become the largest issuer of new cards in Mexico in the fourth quarter. So, we will be expanding products, we will be expanding deals and we will continue to expand the number of customers.

And unfortunately, I will not be able to provide you with much guidance on whether we think we will or will not beat market consensus and by how much. I hope you can understand, Jorge.

Jorge Cury:

No, I understand, Lago. Thank you. But I guess just to focus, I mean, I think it is pretty evident to everyone what could be the sources of potential upside. Can you maybe talk about the risks to the 2022 revenue number? What would you say are the top three risks that management is looking closely at following closely and how do you expect those two to play out during the year?

Guilherme Lago:

Jorge, I think on the risks that we have, I think what will kind of move the needle more strongly in 2022 is we will have to continue to see our cohorts mature. We have seen the cohort maturing and then we have seen the purchase volume per active customers go up by 5x to 6x over time. We believe that this will continue. But it is a risk going forward.

The second risk that is now inevitable that we will be watching very closely, and we are hyper focus is on monitoring the asset quality of the portfolio. And we are not blind to the macroeconomic deterioration expectations that exist.

As of today, we are very optimistic that the market will prove to be favorable to the expansion that we plan to have, especially as we start with a much lower market share. But we will be watching this very carefully and with a hyper focus on short term delinquency indicators.

David Velez:

Jorge is David here as well. Just pulling up here on Lago. I think clearly macro is a source of uncertainty for us. As Lago said, we are taking a very close look into any potential deterioration for macro. And we will adjust any growth expectations if we start seeing signs that we feel uncomfortable with the risk that we are taking.

That being said the type of credit products that would pick up where perfect. These are two products that give us very good visibility, and they are very data intensive. They are very short-term duration in nature, very high return on equity, very high return capital.

So, it will give us the opportunity to react very quickly if we see any deterioration. And there is a lot of buffer and cushion on the profitability of these products.

And at the same time, if the macro does take a turn for the worse, we are entering this year extremely well-capitalized with all our IPO capital effectively untouched. And that should also open up for a number of opportunities that we would expect to see.

Customers, and we have seen historically in all our history, which we have only see, unfortunately, we have only seen Brazil in a recession. Effectively since we started in 2013, customers tend to become even more sensitive to products that charge them less fees, to product that charging less interest in that environment tends to be an environment where our products are so focused on the customer excel.

And so that combination of more differentiation with the capital that we have can open up a series of opportunities for us. So, net we are really kind of observing both sides of the trade, being very aware of some of the risks that we might be facing over time 12 months, but ultimately very comfortable with the strategy that we are executing.

Jorge Cury:

Thank you, David and Lago. Much appreciate and congrats again.

Jorg Friedemann, Citi:

I appreciate the opportunity. So, my question is related to a bit of what Davis just mentioned. When you look into the evolution of your revenues quarter over quarter, it expanded by more than 30%. Gross profit, you know, low single digits exactly because of this expected loss methodology you are using.

So, I understand that you are comfortable with this strategy. But you know, I also like to understand how comfortable you are with your excess liquidity. Asset quality, I think, is well explained, but you have more than US$9 billion of deposits, and that is moment US$2 billion of interest's assets.

At some extent, that could jeopardize your ability to continue expanding margins and you need to be a bit more aggressive also to be able to capitalize on this difference? Thank you.

Guilherme Lago:

Jorg, thank you so much for your question, I think it is a great provocation. And we do believe that in Latin America, for you to play in consumer credit underwriting, you need two things. You need not only state of the art credit underwriting platform, but you do need to have access to local currency funding at competitive rates.

And I think, as you mentioned, we have now a fairly comfortable funding structure today. Our balance sheet is very simple. We have now about US$9 billion of deposits to basically support about US$2 billion of interest earning assets. And therefore, we have lots of flexibility. Our loan to deposit ratios is one of the most conservative that we can find.

Going forward, we do expect that we will fund the majority of our interest earning asset portfolio or credit portfolio in general with our own local currency deposits. And I think you were alluding to also the cost of those deposits.

And look, we do have for the majority of those deposits, we would pay 100 % of CDI, which are the deposits for consumers. But for the deposits for SMEs, we have already started to pay 0% of CDI. And thirdly, I think the credit card working capital structure in Brazil is also very favorable for the issuer because it has a negative working capital scenario. So, as we grow your credit card, it increases the floats to which we expect.

Going forward, we do expect to remain and to pursue the lowest possible cost of funding for us. And we will be watching carefully the opportunities that we have in the value proposition to our customers as to how we can price the deposits in the coming quarters and years.

Jorg Friedemann:

No, that is perfect. If you allow just to follow-up. On the point about expansion of revenues versus gross profit, you alluded to how you see the effects of IFRS on slide 23. Using this as a reference and also what you just mentioned in terms of sign of costs of funding. When do you think in your strategy, we are going to see the gross profit accelerating more aligned with the revenue profit? Thank you.

Guilherme Lago:

Jorg, it is a great question, I think I would even take advantage of turning your attention to slide 24 that Yousef has highlighted. And as you can see there, at maturity, our products converge towards a 60% plus risk adjusted margin.

So, we expect that we will converge towards a much higher gross profit margin as the growth rate in our interest earning assets now stabilizes. As long as we have high growth in interest earning assets, we should expect to see the expected credit loss provisioning putting pressure on our gross profit margins, even though it is an intentional time mismatch.

Once they converge at maturity, all the cohorts have converging towards a 60% plus risk adjusted margin. So, your question is probably when are we going to start to post much lower growth rates? Is where we are going to achieve the 60 % or closer to the 60 % risk adjusted margin.

It is also a function, as you may have seen of the ratio between the front book and the back book. Even as we continue to grow, the back book will continue to gain relevance, relative relevance. And the more relevance the bank book has, the higher the gross profit margin should get.

David Velez:

David here just adding a little bit more of additional context. I think it is worth taking into context that we, you know, by now, we have something like 30% of the entire adult population in Brazil as customers. But we only have something like one 1% market share in the consumer lending portfolio, which is the largest profit pool in the banking sector in Brazil.

And when we go and talk to our customers, we are seen us getting the highest net promoter score in that product consistently. And so, it would kind of take us to conclude that over a period of time, we should be able to see our customers refinancing a lot of their existing loans with Nubank, and us was gaining a proportionately much higher market share similar to market share that we have from a customer perspective.

So, all of this to say that there is a significant amount of growth ahead and the size of the customer base is a bit of a leading in. The customer base multiplied by the NPS is a leading indicator to future market share gains in some of the financial products that we have. And so, we really are in the very, very early stages of that growth projection of growth trajectory in some of these products.

Jorg Friedemann:

David, that makes sense. Thank you very much for the explanations.

Thiago Batista, UBS:

Hi, guys. Thanks for the opportunity. I have two follow-ups. The first one is about the most recent cohort of Nubank. When you look for the new clients, do you believe that they have the same potential for the ARPAC of the old clients? Or no, the clients are not so good as in the past. So, I want to understand if the new clients have the same potential of the older ones.

And also, the second question, the second follow up is about asset quality. You already mentioned that ratio should return to the pre-COVID level. Nu is still well below this level. Do you have a sense if this is expected to happen, if they true or no, this should take a couple of years to return to this pre-COVID level?

Guilherme Lago:

Thiago, thanks so much for your question. Let me let me address maybe the revenue potential that you alluded and then I would invite Yousef to address the asset quality question that you said. Look in our new marginal customer has proven to be as profitable as the older ones, especially if you look at the slide 13.

You can see that as we launch more products and as we launch more features, you will basically you have been able even for the earlier cohorts, to have growth curves that are at par, if not better, than the growth curves of the older cohorts.

As I mentioned before, it is not only because of the faster maturation of the customers, but also because we now have much more products and features, and we can offer a much more comprehensive value proposition to the customers.

In terms of overall potential. If you take a look at our pack off no incumbent banks in Brazil, they are now about US$35 to US$38 for active customers per month. We are still at about US$5 per active customers per month. The more mature cohorts already are US$15. So, we believe that we still have a gigantic gap to close in in both proprietary products as well as third party products.

Your question also alludes to “but what about the new customers, the marginal customers? Are they as profitable and as promising as the older ones?” And I think we are basically we have made very good strides into the younger middle class in Brazil.

As we evolved, we are converging towards the average demographics of Brazil, and we are making very good strides into the upmarket as well as good strides into, you know, reaching deeper into the unbanked. The balance of those two things so far has proven to be very promising, as you can see in the cohorts, which show that our cohort lines are even better than the older ones.

Youssef, would you also be able to shed some light on the asset quality question that Thiago posted?

Youssef Lahrech:

Yeah, I would be happy to answer. Thiago, with respect to asset quality and the trajectory there in the outlook. So, as I have said before, we expect either the credit environment to normalize back to pre-COVID levels.

And if you look at what has happened over the last two years, as we entered the pandemic, we have seen extraordinarily low levels of delinquencies and NPLs, but they have started to normalize back in the last few quarters.

In fact, our expectation was that normalization would take place, that was our expectation all along. And if anything has been normalizing slower than we expected, we thought this process would take maybe 6 to 12 months.

We are 24 months into the pandemic and still slightly below pre-pandemic levels in terms of delinquencies, but we expect that to continue to normalize going forward. So that is our baseline scenario.

Now, as I have said before, as part of our credit underwriting philosophy, we expect every loan, every credit card grant, every credit limit grant that we do to go through a downturn that is the level of risk that we underwrite to.

And so, as a result, it gives us really strong levels of resilience. Our cohorts on aggregate are able to take in roughly a doubling of risk and still be NPL positive. And so, we feel very comfortable with the level of resilience that we have inherent in our portfolio.

Thiago Batista:

Very clear. Thank you, Youssef and David.

Darrin Peller, Wolfe:

Hey, guys, thanks. When I look at the user growth numbers, obviously it continues to look strong. We have seen a lot of other digital companies that had a pull forward in the pandemic. Maybe you could just walk through the main driving forces of that strength we are seeing, whether it is geographic or new product.

And then just to underscore the underlying customer acquisition cost, that seems to still be strong as you grow into those new geographies and products. Are there anything we should expect about that to change in terms of your CAC that we've been able to see somewhat industry leading? Thanks, guys.

Guilherme Lago:

Thanks a lot for the question. So, we think the market has gone through several stages and is not that different from any other technology adoption curve where you begin really addressing the early adopters.

And in fact, we started very much focused on those early adopters and basically the early adopters were traditional early millennials that were much eager to adopt digital solutions. And I would say somewhere around

2017, 2018, 2019, you start kind of breaking away from those early adopters to really grabbing them in the main market. And I would say that is probably where we are today.

This has become, the digital banking solution has become embraced by, I would say, a very significant percentage of Brazilians already. Pandemic accelerated that adoption among certain segments that were historically a bit more skeptic. Segments such as people are about 60 years old, segments that really were very much heavy into offline branches.

Since all the branches were closed, people had no other option than starting to use a lot of digital channels. And since we were the category leader, we are the category leader in the digital banking solution, they tend to flock to us before they consider any other options.

That is mainly the reason where we now start seeing actually our core growth accelerating and we start seeing our segments expanding beyond their core millennial population. And this gets accelerated by your ability to launch new products.

Three years ago, we had one product, a credit card, and then we launched a savings account. Now we go to market where the credit card, savings account, personal loan, insurance, marketplace, but for consumers as market and small businesses.

The value proposition is much more robust and complete, and that helps us get still the skeptics that we are saying, it is very painful to have different banking solutions. Whenever you launch a personal loan, I will go to Nubank.

We see that a lot of from customers that says "I am still waiting. When are you launching the following product? When are you launching the following product?" I would say that combination of forces sort of the market embracing fully digital banking, combined with our ability to provide more products, reinforces the growth adoption and ultimately customers are coming.

Where are they coming? They are coming because it is a better experience, a lower cost, almost very simple kind of equation. Better experience is the combination of fully digital products, great customer service, very easy to use, very simple interfaces at a lower cost.

We charge no fees and especially on personal lending, but in certain segments in credit card, we are also trying to bring cost and interest rates lower and lower. So, it becomes almost like effectively a no brainer solution.

Why would you stay with the baking company that charges you more? Makes your wait and go through a big branch when you have an absolutely better solution. We expect this this really trend to just accelerate across all the different demographics and be even increased and augmented by the product roadmap that we have ahead of the next few years.

Darrin Peller:

Thank you, I appreciate that. The customer acquisition costs you think can be stable. And just one quick follow-up on partnerships? I know that has also been a great source for you guys to add incremental offerings and probably attract customers. Is there progress on incremental company partnerships in different verticals such as insurance or trading like you have done before? Thanks again, guys. Nice job.

Guilherme Lago:

Sure. Yeah. This is what we mentioned as we call the marketplace that we really launch towards the end of Q4. So, it is very early. But we already have over 20 different partners from a number of different ecommerce businesses that are offering their products to our customers via app.

We have secure lending products, such as credit tests that offer secure lending for home equity and auto equity. Such like that, we have a number of different partnerships that we are announcing. Now that we have the right product, architecture, and technology platform, it becomes much easier to launch the second, third, 10, 15, 20 different partnerships.

We want to do it in a way that maintains the simplicity for the customer. And we absolutely do not want to pollute the entire experience and see our customers end up with 10.000 SKUs. We want to be very deliberate and very careful about the type of products that we offer for our customers, the type of partnerships that we have. So, we are taking our time to do it right.

But ultimately, we think this is a huge opportunity because we are able to use the scale that we have to bring better solutions and offers to our customers and accelerate that flywheel of the heart of our proposition is the more customers come, the more customers come, the more they invite their friends, and they maintain the lower customer acquisition cost and reinforce that their value proposition. So, we are very excited about that marketplace, early marketplace moves.

Darrin Peller:

Thank you, guys.

Participant, HSBC:

Congratulations, team on the inaugural record of very good results. My question is more on asset quality. Well, it is good to see the asset quality trends that you showed in the presentation. The consumer finance book is about 3.5% right now.

But if we expected to go to pre-COVID levels of, say, 4.3% or 4.5% during this year. What does that mean for your cost of risk? The cost of risk for this year has been going up to through the quarters and was about 10%.

Given that do you see the model requires you to provision a plan? Would it make sense for the cost of risk to go up to 13% to 15% in 2022? Or what level do you think would make sense? Thank you.

Youssef Lahrech:

Thank you very much for the question. So, first of, as Michael mentioned earlier, we do not provide financial guidance around this metric. But if you were to say qualitatively about the trends that have been playing out and we expect it to play out that impact NPLs and cost of risk.

I would say there is two main things at play. One is the continued normalization to pre-COVID levels, as you rightly pointed out. We expect that to continue to put upward pressure on NPLs and translate into slightly higher coverage ratios and slightly higher cost of risk.

The other one is the mix of credit assets that we book. Our lending portfolio has been growing relatively faster than our credit card portfolio. And it also comes with both higher margins and higher risk levels. So, we expect that to put also upward pressure on things like NPL and cost of risk. So qualitatively, I think those would be the two main drivers going forward to that we expect.

Participant:

Thank you so much. If I could just follow-up. And I know you do not provide any guidance regarding long growth, but given the macro environment today, would your preference be more inclined towards growing your loan book faster maybe building out a platform focusing more on the on the fee side of the business rather than on the interest income side of business?

And what level of growth should we expect, especially in the personal loan book? I mean, no specific numbers, but I mean, should it be similar in terms of nominal increase in the loan book? Should there be similar to what we saw earlier in 2021? Or do you expect to slow down growth specially in the personal loan book for this year? Thank you so much.

Youssef Lahrech:

Great question. So, on growth levels, our outlook, as I mentioned earlier, for this continued normalization to pre-COVID levels. That is our base scenario under which we would continue to grow at a healthy pace both credit card and lending.

And we feel very comfortable with that baseline scenario because there is a lot of resilience built into our cohorts that come with very short paybacks, very high margins, as you saw in those slides. And they are very short duration, you know, our average durations around six seven months for four loans.

So, we feel very comfortable with that short duration and should conditions materially deteriorate. We feel good about our ability to detect that and to act faster to pull back if needed or take any other resilience building actions around pricing, around collections, intensity, etc. We are prepared to act should things deviate from our baseline.

Participant:

Thank you so much.

Geoffrey Elliot, Autonomous:

Hello. Thanks very much for taking the question. The fourth quarter is always a strong one for spending in Brazil. Can you give us a flavor of how much seasonality is there in the numbers? How much should the strength in revenues persist versus being part of it, an impact of the fourth quarter being strong and then likewise any kind of seasonal impacts and expenses or anywhere else in the P&L, but we should be aware of.

David Velez:

Thanks so much for your question. It is a great one, I think we can take a look a little bit about seasonality on slide 15, where you can see the evolution of our purchase volume. And yes, the fourth quarter of each year has historically been a strong quarter in terms of purchase volume.

But overall, you should take a look at our growth. The overall growth of the company in terms of number of customers, in terms of purchase volumes, in terms of cards has outwaited the volatility going forward.

So, we do not expect that we will have in 2020 a behavior that is materially different than the one that we have seen in in 2021. It is also the case that there is some seasonality in terms of cost of risk throughout the year. We also expect that 2022 will follow a relatively similar trend, as we see in the Brazilian market.

Geoffrey Elliot:

Could you remind us of that seasonality and cost of risk, how does that play through?

David Velez:

I think historically you can see that delinquency are usually lower in the fourth quarter and higher in the first quarter of each year. That is normal seasonal trend that we see in Brazil and quite honestly than we see elsewhere in the world. That is something that we are also expecting to see going forward.

Geoffrey Elliot:

Thank you.

Gustavo Schroeder, Bradesco:

Thank you for taking my question and thanks for the presentation. It is a very simple question. I just would like to understand how was the impact from the higher cash position due to the proceeds in your interest income?

Especially because of what we consider trading gains were stronger this quarter. Just so I would like to understand how was the impact and what would you expect in terms of our consumption of these proceeds? Thank you.

Guilherme Lago:

Thanks so much for your question. The contribution of the proceeds of the IPO to our revenues in 2021 or in the 4Q21 has been very, very small. We basically IPO and the financial settlement of the transaction happened towards to mid-December, actually happened in the first week of January. So, there has been little impact of proceeds.

In terms of trading gains it is a great opportunity for us to clarify if you take a look at our interest revenues. It is basically compounded by three things. The interest that we earn on credit card interest, that we earn on personal loans and the interest that we earn on our cash.

The financial statement describes this as gains and losses on financial instruments, but they are nothing more than the evolution of our very large investments in treasury bonds. We have a very conservative cash policy and treasury management, and we expect to continue to have very conservative policies going forward.

Your third question was on the use of proceeds of the IPO if I am not mistaken. And we do expect to use this for working capital and general corporate purposes in general. But I would say that primarily to expand and view our international growth in Mexico and Colombia.

We are very bullish on the potential of those two countries. If you take a look at just the size of Brazil, Mexico and Colombia combined, those three countries account for about 60% to 62% of the GDP and population of Brazil. And Mexico and Colombia combined have a population that is almost the same size of Brazil.

We have about 30% of the adult population of Brazil been active customers of Nu. We have less than one 1% of the combined population of Mexican and Colombia and customers of Nu. So, I think a relevant portion of the IPO proceeds will be directed towards our international expansion in those two countries.

Gustavo Schroeder:

Very clear, Lago. And just a follow up on the interest income. It was very strong indeed. I would like to understand how have you seen the repricing process given the high interest rates? I mean, when I talk to the other banks, they are saying that are some competition.

When you compare the less interest rate hikes, this cycle has been more difficult to reprice. I would like to understand how do you see that and how Nubank has been able to reprice.

Guilherme Lago:

It is a great question, Gustavo. We have historically seen in the asset classes in which we play, credit card and personal loans, that repricing has been faster than what we have seen in many other asset classes.

In fact, once we see the reports that have been put out by the Brazilian Central Bank over the course of the last six months, we have seen that the market in general, and with respect to credit card and personal loans, has been able to reprice relatively fast and not only defend net interest margin, but also even expand marginally than adding some margin in general.

We at Nubank, however, we expect that we will always be very competitive in terms of pricing, primarily in personal loans. But we will and we have kind of been very fast and swift in repositioning and repricing our products accordingly. We have not seen, we do not experience, and we would not expect to see any material challenging repricing short term credit products going forward.

Gustavo Schroeder:

Thank you, Lago. Very clear, thank you.

Alexander McGrath, KeyBanc:

Hi, team. Thanks for taking the question and nice to speak with you all. Couple of questions. Just first around credit, just for qualitatively in your baseline scenario, do you anticipate taking a more conservative approach to credit underwriting in 2022 versus 2021?

If so, are there certain segments of the retail market that you might see as is more affected by this kind of change in underwriting standards? And if not, do you see an opportunity to grow with customer segments to the extent that some of your peers are maybe pulling away from in a more challenging environment?

Youssef Lahrech:

Hi, Alexander. Thanks for the question. So again, our basic underwriting stance is always to underwrite to future risk worsening. Like I said, we expect and we underwrite every loan, every credit card grants to an expectation of that it will go through a downturn and it needs to be an positive in a downturn.

So, given that, we feel comfortable continuing with our growth trajectory. But that being said, we are keeping a very close eye monitoring our various segments and products, looking at leading edge delinquencies, looking at the general macro environment.

And we feel prepared to both pull back if needed in places where we see a degradation that that is faster, more severe than we assume or to take advantage of opportunities conversely, where we see a competitive window to grow market share faster or provide more competitive offers to customers.

Alexander McGrath:

Thank you. And just quickly, on marketing expense came a bit lower than we had anticipated. Maybe just, you know, again, kind of qualitatively speak to priorities with respect to marketing expense in 2022. How do you plan to balance more top of funnel type efforts versus targeted spend to drive adoption of some of the newer products that you called out this quarter? Thank you.

Company:

Sorry, could you repeat the question, please? I apologize.

Alexander McGrath:

Sorry about that. Just with respect to marketing expense, it came in a bit lower than we had anticipated this quarter. Just wondering if you can speak to again qualitatively priorities for 2022 and how you plan to balance a more top of funnel type marketing spend versus perhaps more targeted spend to drive adoption of some of the newer products that were called out this quarter?

David Velez:

It is a great question. We do expect that we will continue to have no strategic marketing spend, especially on paid marketing. I think our customer acquisition cost, as we mentioned at the beginning of the call, has been among the lowest that we have seen in the market.

We have a customer acquisition cost of about US$5 per customer, of which paid marketing account for only US$1. We expect that as we go forward that this will go up and we will lean in more aggressively on customer acquisitions, not only in Brazil, but primarily Mexico and Colombia.

But we should not expect to see any material deviation from the LTV to CAC equations that we have shown to the market going forward. So, I would expect that no marketing will slightly go up, but it will not be a step change to what we have seen in the past.

Youssef Lahrech:

We do see an opportunity and we will probably be investing a little bit more marketing in repositioning the product better in certain segments where we are not that well known. So, we launch Ultravioleta, which is your product directed towards high income population in Brazil last year. We are very excited so far with what we have seen.

There is an opportunity to build more that brand in that segment and we will be doing that. We also announced to be one of the sponsors of the FIFA World Cup, so there will be some marketing investments surrounding that specific event.

We are actively asking ourselves a question, are we actually spending too little? Because when you look at the LTV calculations that we even discussed a lot during the IPO, in a market that became more competitive with the type of capital that we have and the type of returns that we were seeing there is opportunity to actually be even a bit more aggressive.

That is sort of the question that we are always balancing. But in general, you could even double pack and still not really move the needle in terms of the LTV to CAC that we are seeing in some of the customer segments.

Alexander McGrath:

Great, thank you for the thoughtful response.

Pedro Leduc, Itaú:

Thank you, guys for taking the question. A little bit on backstory, on the NPLs. You showed a good behavior and you shrunk both credit cards and personal loans on that chart. Now if we could try to dig in here a little bit, maybe how each of these lines behaved and no one firm read a recent note.

And if you could remind us, if you have a relevant renegotiated book and what your strategy is for four recoveries, both in terms of internal efforts, if you are engaged or planning on doing selling portfolios as a strategy to mitigate risk. Just taking your brain here.

Youssef Lahrech:

Hey, Pedro, thank you for the questions. Let me try to address them one by one. You are right, in terms of both credit card and lending both products have generally performed as expected in terms of NPLs and delinquencies. You know, we have seen that same gradual return to pre-COVID levels and both. They are actually slightly below those levels, but trending gradually towards that, which has been our baseline expectation.

You are asking about renegotiation. We do provide that option to customers. We take a pretty conservative approach to renegotiations of loans, and we follow regulatory guidance around that and provision accordingly.

If you look at our renegotiation volumes, this is something we monitor because of the volume and the performance of renegotiated loans. It has been remarkably stable in the last, I would say, 12 months or so or even more than that. So, this has been no real change in that approach over the last several quarters.

You were also asking about asset sales. This is not something that we have done in the fourth quarter, but it is a lever that would be part of things we might do in the future should the conditions call for that.

Guilherme Lago:

And Pedro, if I may just add to this and following maybe a discussion that we may have had in the past. Even the refinancing or restructurings that we do in credit card. They are entailed within our credit card delinquency and provisioning numbers, and they do not affect or influence our business and personal loans

It is super important for us to keep those two products completely separate. And we do not use personal loans to affect positive or negative the delinquency of credit card.

Pedro Leduc:

That is very useful, Youssef and Guilherme, especially the earlier comments on the level of the book being stable. That is very good. Thank you.

Mario Pierry, Bank of America:

Hi, guys. Thanks for taking my question. Let me ask you two questions. They are both follow-ups. The first one is when you mention that you have a very high NPS score on your retail loans. I want to understand a little bit better. What gives you a high NPS? Is it that you are charging a lower interest rate, you are making more credit available or what exactly drives a high score in a retail loan?

And if I can tie that in the previous question in terms of the repricing of these loans right as you mentioned your deposits, your retail deposits to individuals are basically linked to CDI. So, as the CDI has gone up, you are repricing your portfolio, as you mentioned. But are you able to fully pass on this higher funding costs to your clients or are your spreads are compressing a little bit? That is the first question. Then I will ask the second follow-up.

Guilherme Lago:

Hi, Mario. Thank you for your questions. First on the NPS on loans, it ends up being always a bit of a combination of better products or better quality and lower costs. We tend to operate our products on both ends. And on the personal loans specifically, the higher quality or better product is a function of the user experience.

The fact that consumers can get a loan is a very easy process to get. You could get it immediately deposited in your bank account. We have real time algorithms that are understanding consumer patterns. In every time our algorithms are able to approve a loan, the consumer gets a message that a loan now is available. And should a person need any support, it is very easy to reach our customer support team and really ask for any questions.

So, that is kind of on the user quality side is the digital aspect and the consumer support. And we generally also offered that at a lower cost. So, we try to price today at something about 30% below the market average. And we want to maintain that aggressive kind of pricing to maintain this equation and ultimately driving to our very high end NPS. So that is the NPS side.

On the cost of CDI, we effectively pass, we are able to pass 100% of that CDI increase to consumers without a bit of benefit in the account for small businesses where we do not offer 100% of CDI as part of the value proposition. We are not offering any yield. So, we actually benefit, net benefit on an increasing CDI environment from that perspective.

Youssef Lahrech:

Mário, if I may just add to what David said on the interest rate. Usually rises in interest rates is very positive for consumer banking and I think it is no exception for us. It is neutral to net positive for us, but I would just highlight the structure of our balance sheet, which is very simple.

On the right side of the balance sheet, we have US$9 billion of interest liabilities for which we pay 100% of CDI, as we mentioned; US$6 billion of non-interest-bearing liabilities and US$4 billion of equity; total US$19 billion.

On the left-hand side of the balance sheet, we have US$13 billion of cash and equivalents, US$2 billion of interest earning credit portfolio and US$5 billion of non-earning credit portfolio, which is the credit card receivables. Also, of course, totaling US$19 billion.

So, when interest rates go up, the cost on our US$9 billion interest bearing liabilities go up. But the revenues on our US$15 billion interest earning assets go up. It is a net positive for us. Just wanted to highlight kind of the overall structure of the balance sheet and therefore the impact of interest rates to our business.

Mario Pierry:

Ok, that is helpful. And then my second question is related to your client base in Mexico, right? As you mentioned, you already have 1.4 million clients is about 2.5% of your client base. So, just help us think here, you know, at what percentage should Mexico be of your total clients by the end of next two years? And how should we think about the profitability of a Mexican customer versus a Brazilian customer? Do you see any significant differences in your parts between Mexico and Brazil?

Guilherme Lago:

It is a great question. So, I think in terms of population, thinking in terms of number of customers overall, we would expect that in the long term, the percentage of our customer base in Mexico could basically represent or mirrored the population in Brazil and Mexico.

Eventually, with the upside case to be made in Mexico, which is are no banking penetration, card penetration is so much lower than Brazil. Our relative market share in Mexico can eventually prove to be even greater than it is in in Brazil.

In terms of profitability of the customers in Brazil and profitability of the customers in Mexico, the ARPAC of the customers in Mexico we expect to be as likely no lower in the short term than the ARPAC of our customers in Brazil, especially because we are going to be launching there with credit card and bank accounts in the coming two to three years.

Now, the flip side to that is that the credit card is a much more interest-bearing balance heavy product in Mexico compared to Brazil. And therefore, the unit economics there can be even healthier. In general, however, we expect that the ARPAC of Mexican consumer will be anywhere 20% to 30 % lower than the ARPAC of a Brazilian consumer in the long term.

Mario Pierry:

This difference in ARPAC again, does it reflect in a lower disposable income or lower income Mexico? Or does it mean that your ability to cross-sell products in Mexico should be lower in Brazil?

Guilherme Lago:

I think the ability to cross-sell products in Mexico should be as good as it is in Brazil. So, I do not think it is a matter of product cross-sell potential is a matter of timing. It will take us more time to achieve the product portfolio that we have in Mexico.

So, if you take a look over the course of the next five years, we think that the ARPAC of the Brazilian consumer will still be slightly higher than the ARPAC of an average no Mexican consumer that our customers of Nubank.

If you take a look, in fact, in terms of disposable income and maybe the best proxy for that is no average GDP per capita. The GDP per capita of No. Mexico is about 25%, 20% to 25% higher than Brazil. So, there is a case that in the very long term, the Mexican consumer could be as profitable more than the Brazilian consumer.

That is not what we have in our mind for the next three to five years because of the stage of maturation of the operations in those two countries.

Mario Pierry:

Guys, thank you very much. Very clear.

Guilherme Lago:

Thank you, Mario. That is the end of the questions. I am just going to pass the floor to David for closing remarks and we can end the call.

David Velez:

Everyone, thank you very much for your time. It was a pleasure to talk about our results. We are very excited about what is coming ahead for Nu. And we look forward to continuing delivering that customer obsession and those financial research results that come together with that. Thank you very much for your time.

Operator:

The Nu Holdings conference call has now concluded. Thank you for attending today's presentation, you may now disconnect.