Nu Holdings: Q3'22 Conference Call

Operator: Good evening, ladies and gentlemen. Welcome to Nu Holdings conference call to discuss the results for the **third quarter 2022**. A slide presentation accompanies today's webcast, which is available on Nu's Investors Relations website: www.investors.nu in English and 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. To access it, you can press the icon on the lower right side of your Zoom screen, and then choose to enter the “Portuguese room”. After that, select “mute original audio”.

Para acessar nossa conferência em português, clique no ícone do globo ao lado inferior direito da sua tela Zoom e selecione a opção “Portuguese room”. Ao acessar a nova sala, certifique -se de mutar o áudio original.

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 call over to **Mr. Jörg Friedemann, Investor Relations Officer** at Nu Holdings. You may proceed.

Jörg Friedemann: Thank you very much operator. And thank you all 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, Youssef Lahrech, our President and Chief Operating Officer, and Guilherme Lago, our Chief Financial Officer. Additionally, Jag Duggal, our Chief Product Officer**, will join us for the Q&A session of the call.

Throughout this conference call, we 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.

Unless noted otherwise, all growth rates are on a year-on-year FX neutral basis.

I would also like to remind everyone that today's discussion might include forward-looking statements, which 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.

Today our **Founder and CEO, David Velez**, will discuss the main highlights of our third quarter 2022 results and some of the opportunities ahead. Subsequently, **Guilherme Lago, our CFO, and Youssef Lahrech, our President and COO,** will take you through our financial and operating performance for the quarter, after which time we will be happy to take your questions.

Now I would like to turn the call over to David. **David,** please go ahead.

David Velez: Thanks, Jörg. Hello everyone - thank you for being with us today. I am happy to share that Nu turned in another strong quarter. In our 9-year history as a company we have already seen a lot: we saw a GDP contraction of 7% during the years of 2015-2016, the largest recession in Brazilian history; we saw a presidential impeachment; we saw right-leaning governments and left-leaning governments coming and going across the three countries we operate. And today we see a slightly more volatile environment than we saw in 2021, which brings a bit more caution, but that also creates opportunities to continue capitalizing on our long term thesis that remains intact: the future of financial services will be built by technology companies, and we are in the lead position in Latin America, one of the largest regions in the world.

Today I'm happy to report that during the third quarter, Nu reported breakeven at the holding level, posting a net profit of US$7.8 million and an adjusted net profit of US$63.1million while growing revenue at 171% year-over-year and welcoming more than 5 million new customers, becoming the sixth largest financial institution in Latin America by number of active customers. This mix of growth and profitability shows we are being able to balance appropriately the significant growth opportunity we have ahead while strengthening the earnings fundamentals of our business model. We will continue to reinvest our profits to fuel our growth and long term value creation.

During the third quarter, we continued to see progress among all our main business metrics: we passed 70.4mm total customers across our three countries while seeing our activity rate per customer increase to a new high of 82%. Our purchase volume grew 75% year-over-year to US$21.2 billion already reaching a market share of 12% in Brazil. And while we have increased the level of resilience of our credit underwriting to account for the more volatile macro environment, our credit portfolio was still able to grow 83% year-over-year to US$ 9.7 billion, while being fully-funded by our own retail deposits that grew to US$14 billion.

While our business opportunity started by unbundling financial services through a fully-digital strategy, our current imperative is to rebundle and build a diversified multi-product, multi-country and multi-segment platform. Our customers actively tell us that they want to consolidate their entire financial lives with Nu, and so this rebundling continues to progress at an accelerated pace driven by significant existing demand from a base that now accounts for about 40% of the adult population of Brazil. Let me share with you our progress on each of these fronts.

We have been able to develop and launch innovative products that are fundamentally better than what one could find in the markets in which we operate, always looking to have the highest Net Promoter Score metric in every category we choose. The velocity with which we develop and launch new products has accelerated recently as we invest significantly in our own technology platform and ways of working.

As you can see on this chart, active users are growing in almost all of our products on a double- or tripled-digit year-over-year basis. New products continue to post even more impressive figures. For instance, personal loans had a 279% increase in active customers over the past year. Our active SMEs accounts reached 1.3 million, an increase of 117% in a year. NuInvest customers expanded 148% year-over-year. Finally, our recently launched crypto product has grown to 1.3 million active customers, less than 6 months after launch. Notice that a lot of this growth is driven by the secular trends of digitalization of the economy and products that solve real customer pains, and have little to do with the economic cycle.

We are still at the early stages of strengthening our platform with products that will further support our product cross-sell strategy and our revenue accretion. We will continue to manufacture our own products when we believe we can be the best-in-class product manufacturer and like their unit economics. But we will also continue to leverage on product partners to complement our skill sets and balance sheet, whenever applicable. Our forthcoming launches include collateralized loans, savings accounts in Mexico and financial planning tools, among others, that will make our platform have an even stronger value proposition for our customers.

The second key pillar of our business model is expanding our multi-country platform. We believe the strength of our technology platform has positioned us favorably to cross borders effectively and efficiently, innovating how retail banking grows internationally.

Together, Mexico and Colombia can be bigger than Brazil for us and we are growing in those markets faster than we grew in Brazil. We could not be more excited with the early success of our multi-country strategy.

We have already become the #1 issuer of new credit cards in both Mexico and Colombia, and the growth has not shown any sign of slowing down. Although impressive already, client virality tends to accelerate down the road. Once we launch our deposit-taking products in each of Mexico and Colombia, customer growth is expected to experience step change increases, as we have seen in Brazil. And this change is to happen in both countries over the course of the coming year.

The third pillar of our platform is to advance into multiple client segments all at once as there is customer pain across all segments. We wanted to highlight this point here as we have heard from many investors a fair amount of confusion as to who the typical Nubank customer is. As you can see from the demographic breakdown of our current customer base presented in this slide, we have made strong inroads across all demographic segments in Brazil. In fact, our customer segment distribution is similar to those of incumbent banks in the country, highlighting our significant potential to expand further our Average Revenue Per Active Customer, or ARPAC, as we advance in our roadmap. As of the end of Q3'22, our ARPAC was 1/5 the average ARPAC of Brazilian incumbent banks, which creates significant upside in our monetization plan as we continue our product diversification. Notice also that 8% of our customer base belongs to the "high income" group, which is similar to other major financial institutions in Brazil and also provides good diversification through more challenging macroeconomic cycles.

I want to remind you that everything we built to-date started from a principle of building the absolute best product in each category. We believe that in a more competitive environment, customers can finally choose the very best product experience- this simple insight continues to be our north star as a company. This is best captured by our Net Promoter Score, which, after almost a decade of our foundation, continues to command indisputable leadership across all of the markets in which we operate. We believe this metric is a leading indicator for growth, and then for profitability.

We have delivered a strong customer experience that engenders unique loyalty levels among our clients. We chose to make customer experience our most important marketing investment. This has worked well across Brazil, Mexico and Colombia. 70% to 80% of our +70 million customers have come to Nu organically, mostly through word-of-mouth, proving that our formula continues to be effective.

We believe to have achieved DAU/MAU ratios of leading social media players, above 50%, as can be observed in this evolution chart. In our view, this demonstrates the opportunity we have to build a powerful and comprehensive consumer platform evolving from a digital banking offering. A very large and engaged consumer base enables a lot of future optionalities in the ecosystem as we go beyond financial services. We are excited with these opportunities and the roadmap ahead of us over the coming years.

With that, I would like to pass the floor to our CFO, Guilherme Lago, who will walk you through more details of our results.

Many thanks David. Good evening everyone.

Before reviewing our third quarter results, let's recap on the key elements of our simple, powerful, and value generating formula:

- First, is expanding our customer base across our chosen markets - Brazil, Mexico and Colombia - and quickly converting acquired customers into active ones;
- The second is expanding average revenue per active customer, or ARPAC, through both cross-selling and up-selling; and
- Third, is delivering growth while maintaining one of the lowest-cost operating platforms in the industry.

With this in mind, let's look at the third quarter results to see how well these three elements are generating value.

With regards to customer acquisition, Nu continues to grow at a steady pace, adding 5.1 million customers during the third quarter. Importantly, we have been achieving this mainly through organic channels with very low customer acquisition cost, while maintaining the same level of net additions from the two previous quarters. This brought total customers to over 70 million by quarter-end, a 46% year-on-year increase.

Further, we are seeing faster and sustained growth rates in Mexico and Colombia, which together accounted for approximately 500 thousand new customers this quarter.

But we are not in the business of simply collecting customer accounts. We are succeeding in driving monthly activity rates higher. On average, they rose to 82%, up from 73% a year ago and 80% in the prior quarter. This marks the tenth consecutive quarter of higher customer activity, further evidence of our ability to continue expanding Nu's ecosystem while driving customer engagement. We estimate that Nu is now the fifth largest financial institution in Brazil, in number of active customers and the sixth largest financial institution in Latam using the same concept.

On this slide we show the compounding effect of our ability to drive engagement and to cross and upsell products. As we have stated in the past, these charts show the evolution of our customer cohorts, namely increasing engagement of our customer base and a higher number of products per active customer that are both driving ARPAC growth.

While we reached a monthly ARPAC of US$7.9 in the third quarter, mature cohorts are already at US$22. We expect higher ARPACs as our customer cohorts continue to mature, and as we add both new products and features to Nu's ecosystem.

Higher engagement combined with more products sold per customer have been significant drivers of our ability to monetize Nu's expanding customer base. This is reflected in ARPAC expansion that contributed to triple-digit year-on-year revenue growth, as you can see on the next slide.

The compounding effect of a growing number of active customers and higher levels of product up-sell and cross-sell enabled us to grow monthly ARPAC 61% year-over-year on an FX Neutral basis, and to deliver another quarter of strong annual revenue growth.

Revenue grew 171% year-on-year on an FX neutral basis to over US$1.3 billion, a record-high.

While monthly ARPAC has expanded gradually, as you can see in the left chart, we believe there is still a long way to go to reach our full ARPAC potential. As David highlighted previously, we have a growing customer base that resembles the income distribution of clients from incumbent banks, while running at a fraction of their ARPACs. We have the ability to increase our ARPAC with both credit and non-credit products, with both products manufactured by Nu and products offered by our product partners.

Beyond the substantial upside we see in ARPAC, keep in mind the significant advantages of our low-cost operating platform that enables us to serve customers with lower ARPAC levels and still produce healthy unit economics.

Turning to our card business, we continued advancing on this front with purchase volumes up 75% year-over-year on an FX Neutral basis to US$21.2 billion. This strong performance also reflects more product cross-sell, upsell and sustained customer engagement.

Importantly, the vast majority of our credit card book comes from our "backbook", that is, customers we have acquired in past periods. After customers complete 24 months of relationship with Nu, their credit card average spending in our platform usually triples, while their total average spending usually doubles and this should continue driving market share gains as we mature new cohorts. In fact, our market share in purchase volume increased once again this quarter and is already running at approximately 12% of the total for the industry.

Our consumer finance portfolio, which comprises credit cards and personal loans, expanded 83% year-over-year, bringing our total credit book to US$9.7 billion, accelerating versus the previous quarter despite two headwinds.

- First, FX negatively impacted the balance figures. On an FX neutral basis, however, our credit book would have increased by around US$900 million during this quarter, or approximately 9.7% QoQ.

- Second, originations of personal loans continued to be contained at similar levels of the previous quarters, as we had already indicated in our previous earnings call in August. The goal of this moderation is strengthening credit resilience, in light of the more uncertain short-term outlook for Brazil's economy. Given the short-durations of these loans, similar origination levels yield stable balances simply because the originated volume is being offset by amortized loans in the period.

Let's now review in more detail the evolution of our credit card portfolio and originations of personal loans.

As discussed last quarter, we have been intentional in our strategy of closing the gap of our Interest Earning Portfolio, or IEP, versus the market, and this has occurred and should continue to occur via transactions of installments with interest. As you can observe on this chart, IEP arising from installments, including those related to new financing features, such as finance bank slips, purchase financing and PIX credit, has outpaced growth in IEP from revolving loans. This strategy might add risk to our book, but has been paid off in terms of risk-adjusted margins, as we will demonstrate in the coming sections.

Moving on to origination of personal loans, as noted in our previous earnings call, the pace of our originations in personal loans is closely tied to the short-term outlook for the Brazilian economy and the credit performance of our cohorts. We have kept our origination and pricing levels relatively constant this part quarter, and continued to accrue healthy unit economics across all of our cohorts.

Beyond these short-term dynamics, we remain confident in our ability to expand our lending portfolio – we believe we have the best product in the market, our customers already account for one-third of the personal loan market in Brazil, and we have plenty of capital and liquidity to deploy once credit conditions improve. In other words, the only bottleneck for our growth in personal loans is our own credit risk appetite.

Advancing on our strategy to build a robust local currency deposit franchise and lower funding costs, we expanded our deposit base by 73% year-on-year on an FX neutral basis, closing the quarter with a total deposit balance of US$14 billion and a loan-to-deposit ratio of 25%.

Remind that this happened together with two important initiatives that took place in July:

- First, the launch of the Money Boxes, which are investment-targeting tools aimed at customizing deposits according to specific goals with different income options; and
- Second, the repricing of our short-term deposits, which will no longer be remunerated at 100% of the Brazilian interbank deposit rate if the amount is withdrawn before 30 days.

On an FX neutral basis, deposits would have grown US$1.1 billion quarter-over-quarter, or almost R$2 billion per month using the average exchange rate for the period, implying no meaningful attrition post the launch of Money Boxes and the subsequent changes on the yield remuneration for short-term deposits implemented in July.

The successful roll-out of this strategy can also be noted by two additional important data points.

First, as we can note in the chart on the left-hand side of this slide, funding cost already started to come down during the third quarter. In fact, during the month of September, the average funding cost already reached 91% and this should continue to decline during the coming two quarters, until it reaches a new normal.

Second, until the end of September, only two weeks after the completion of the roll-out, more than 1.7 million Nubank customers had created approximately 2.5 million money boxes, with total AuC in these tools amounting to almost US$300 million.

Together with the growth of our credit portfolio, the gradual decrease of our cost of funding impacts another important metric of our business.

Our Net Interest Income, or NII, reached US$527 million this quarter, growing 18% quarter-over-quarter, or 25% on a FX neutral basis. As we expand our credit portfolio, we optimize the use of our large and low-cost deposit base and expand our net interest margin, or NIM, as can be seen on this chart. We have achieved a NIM of 11.1% this quarter, versus 9.7% during the last quarter and 7.7% during the third quarter of 2021.

As we have pointed out, one of the key competitive advantages of our platform is its very low cost to serve. The average monthly cost to serve remained stable at US$0.8, while our monthly ARPAC expanded 61% year-over-year and reached US$7.9, demonstrating the strong operating leverage of our model.

Looking ahead, as we said in the past quarters, we expect our cost-to-serve to be maintained below the dollar level as scale gives us significant operating leverage and bargaining power with our partners.

Moving down the P&L, we delivered another quarter of record-high gross profit, up 90% year-over-year on an FX neutral basis to US$427 million.

This quarter, we started to observe an inflection in our gross profit margin, which after four quarters of compression started to increase once again, and expanded 2 percentage points to 33%.

Operating leverage is a key element of our strategy. As we continue to grow revenues, we further dilute our low-cost operating platform driving better profitability. As shown on this chart, we have consistently improved our efficiency ratio over time, down to 55.1% this quarter, from 91.6% in the first quarter of 2021 and 58.2% last quarter.

We expect this trend to continue and compound over time as we scale up the business. This should be mostly driven by the fact that the majority of our total operating expenses is personnel-related, and we should expand headcount at a slower pace over the coming quarters, compared to the previous ones, when we were staffing our new geos.

Moving on to the bottom line, our recurring profitability confirms again that we are on the right path with our earnings generating formula. We reported Net Income of US$7.8 million this quarter. Adjusted Net Income was US$63.1 million. Both reflect the combination of the higher customer engagement we have been emphasizing and the operating leverage of our platform that has started to kick in.

However, we will continue to manage the company for the long-term and pursue new business opportunities. The execution of this strategy may require us to make additional investments in the short-term, consequently postponing profitability ramp-up. We believe this is how we optimize for the long-term value creation for our shareholders, given the number of profitable growth optionalities we have at hand.

To sum up, this quarter we have continued to observe the strong early signs of the operating leverage in our platform, and it is important to re-emphasize that despite our undeniable growth orientation as we expand into new product verticals, new markets and new segments, we keep a tight look into the profitability levers of the business model.

We will never abandon our cost diligence, as we firmly believe that digital banking is even more a play of costs than of revenues, and that the long-term winners in the Latin American financial services industry will be tech-enabled companies with the lowest manufacturing cost (which at the same time are able to create the highest-rated products that consumers love).

In this context, I would like to revisit our four cost pillars and emphasize our competitive advantages.

- First, we continue to have one of the lowest acquisition costs of the industry, with very limited paid-marketing. This is a result of having more than 70% of our customers coming from referrals and word-of-mouth;

- Second, a cost-to-serve that is 85% lower than that of incumbent banks, which is the result of being a true technology company, conceived under modern, lean, agile and scalable platforms;

- Third, significantly better cost of risk compared to the industry in the products and segments that we operate. On a like-for-like basis, as Youssef will demonstrate next, we believe to have NPL ratios 30% lower than those of the industry;

- Fourth, we are also fully funded with retail deposits at a cost below the interbank rate. Our 25% loan-to-deposit ratio, one of the lowest in the industry, is a statement of trust and engagement from our customers. And we should become even more competitive ahead on cost of funding, as we capture the benefits of the recent repricing of deposits and launch of MoneyBoxes, as well as we implement the savings checking account product in Mexico and Colombia.

Now, I'd like to turn the call over to Youssef, our President and Chief Operating Officer, who will walk you through our asset quality performance.

Youssef Lahrech: Thank you, Lago. Let me now go over key indicators of asset quality and overall credit portfolio health for the third quarter of 2022. Let me begin with overall NPL trends.

The lead indicator, NPL 15 to 90, increased by 50 basis points quarter-over-quarter to 4.2%. This was led by two main factors:

- First, the deceleration in personal loan origination volumes increased NPL for this product due to the so-called "denominator effect". In fact, this accounts for most of the NPL increase for personal loans this quarter; and

- Second, a general macro-trend deterioration, which affected the broader market, as evidenced by other financial institutions that have already reported this quarter.

90+ NPL ratio increased from 4.1% to 4.7%, under the new write-off methodology for personal loans. For ease of comparison, we are providing additional analyses in the next few slides, showing the trends under our previous write-off methodology for our consumer finance book.

I would also like to address potential misconceptions we have heard in the market related to the nexus between our delinquency metrics in Credit Cards and Personal Loans.

- First, the Personal Loan product is originated exclusively through cross-sell to existing Nubank customers, so only to customers about whom we have accumulated prior credit underwriting data. Customers who are delinquent on our Credit Card product are **not** eligible for our Personal Loan product. Again, if you are late with any payment obligations in Credit Cards, you cannot obtain a Personal Loan.

- Second, all renegotiations and refinancing that happen in Credit Cards remain and are accounted for as Credit Card receivables. The same applies to Personal Loans. There are no transfers of receivables or financing from Credit Cards to Personal Loans, or vice-versa.

- Third, we haven't sold any receivables in any of our credit portfolios.

- Therefore, the NPL metrics presented here fully reflect the inherent individual performances of the Credit Card and Personal Loan products.

This chart shows two important pieces of information about our credit card book:

- The six graphs showing the time-series of NPL by income band, where the purple line is Nu and the gray line is the industry;

- And on the right hand side of the chart, the breakdown of credit card balances by income band, again comparing Nu to the industry.

As you can see, Nu's balances are more skewed towards lower income segments than the industry.
This alone should cause our NPLs to be higher than the industry's because of this different mix.

However, as you see on the aforementioned six graphs, we have consistently outperformed the industry in each income band. And even more importantly, the lower the income band, the more pronounced our comparative advantage is.

Furthermore, when you look at the trend over time, you see that the gap has been widening for each income band. In other words, our competitive advantage in underwriting is consistent and sustained, and in fact increasing over time and across segments.

When we compare our consolidated consumer finance portfolio, including both credit cards and personal loans, on the same metrics, we observe a consistent set of trends.

This new chart was created by adjusting for the distortions caused by collateralized lines included in the personal loans category (ex-payroll) as reported by the Brazilian Central Bank, since we currently do not have any collateralized lines or loans in our book.

We estimate that the mix of these collateralized lines has increased significantly over the two past years and currently represent more than 25% of the personal loans category (ex-payroll). Without this adjustment, any comparison of our consumer finance portfolio against the industry would be significantly biased.

While our portfolio is obviously not immune to cyclical trends and deterioration, we are confident, as this analysis demonstrates, that we continue to outperform the industry on a like-for-like basis.

In fact, even when you replicate the analysis we just showed on a lagged basis to adjust for growth, we still end up outperforming the industry by a factor of 30% on a like-for-like basis. So the conclusion holds, over time, across segments, and on a growth-adjusted basis.

To conclude this section, let us now discuss provisions.

Our provisions continue to grow, primarily driven by the growth of our portfolio. We front load provisions when we originate loans, based on the expected losses for the life of the credit. This is the core principle of IFRS9's expected credit loss methodology, on which we base our accounting practices.

In addition, although NPLs have increased sequentially in the third quarter, it is important to note that the unit economics of all credit cards and personal loan cohorts have remained strong and resilient, as we continue to adequately price the risk of our credit portfolio.

In fact, this can be clearly seen in the improvement of our Risk-Adjusted NIM on this chart.

Even with the increase in our credit-loss allowance expenses, we have managed to increase our Risk-Adjusted NIM to 3.2% this quarter, up from 2.3% in the prior quarter and 2.6% in the third quarter of 2021.

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

David Velez: Thanks, Youssef. To summarize our efforts this quarter and the basics of our thesis, I would like to reinforce that Nu continues managing the company for the long term while ensuring improvements in all of its business fundamentals.

- First, during the third quarter, we continued growing our revenue in excess of 170% and gross profit at 90%, year-over-year, while achieving positive net income at the holding level. While the macro is a bit more volatile and we increased resilience in our lending products, we also expanded net interest and gross margin, which shows we are being able to price higher risk appropriately, while also seeing continued operating leverage.

- Second, our relentless focus on products that really serve our customers' needs and our excellence in user experience continue to show up in Net Promoter Scores that are virtually two times the average of incumbent players in the markets we serve. Our NPS is a statement that we are customer-centric by design. Across different markets, we have delivered a strong customer experience that engenders loyalty among our customers. We chose to make the overall customer experience our most important marketing investment, and this drove the word of mouth that translated into customer growth and empowered our brand.

- Third, all of this was achieved by maintaining our growth levers intact. In fact, we have already achieved leadership positions in the most relevant LatAm markets through our multi-product, multi-country and multi-segment business model. We have become the sixth largest financial institution in LatAm by number of active customers; achieved 12% of market share in cards' purchase volume; and became top issuer of new cards in the three countries we operate.

We are very proud of what we achieved this past quarter and even more excited with what lies ahead of us in the coming quarters.

We would 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. Jörg Friedemann** at Nu Holdings.

Jörg Friedemann: Thank you, operator. Please wait while we collect the questions. And our first question comes from the line of Jorge Kuri from Morgan Stanley.

Jorge Kuri: Congrats on the great results. My question is on the origination of the personal loan book. What visibility do you have on when that could accelerate? Is it fourth quarter, first quarter? Is it sort of like more of a second half of next year? How are you seeing that? And how can we, from the outside, monitor what are the KPIs that you are looking at to call that acceleration or that risk appetite increasing?

Guilherme Marques do Lago: Jorge, thank you so much for the question. So we ended the third quarter with all of our cohorts performing very well, including those of personal loans with quite robust and resilient unit economics. So if these metrics remain healthy, as we have seen in the past quarter and at the beginning of the fourth quarter 2022, we may potentially increase the origination of personal loans this quarter still. It's also important to note, Jorge, that in 2023, we do expect to begin the ramp up of our secured personal loans business composed of Nu Investment-backed loans, payroll loans and FGTS loans. It is quite hard to foresee how fast this ramp-up will happen. But we are super excited with the prospects of Nu complementing our unsecured consumer credit portfolio with secured credit portfolios starting in 2023.

Jorge Kuri: Lago, that was very clear. And congrats again.

Jörg Friedemann: And our next question comes from the line of Mario Pierry from Bank of America.

Mario Lucio Pierry: Congratulations on the results as well. My question is similar to Jorge's. Like when would you feel more comfortable in accelerating your growth? Because as you show, right, you have better asset quality than your peers. You are -- these Nu loans you're originating, they are creating value. They're not destroying value as you showed that on your risk-adjusted margins. So I was wondering, are you being too conservative in slowing down now? Why not be more aggressive since you have all these advantages? And it seems to me like your pricing is similar to your peers.

Guilherme Marques do Lago: Mario, thanks for the question. I think we're basically trying to be quite disciplined in the way that we develop and ramp up our new products. So as you pointed out, we are not constrained by the demand. So our customers, which now account for about 39% of the adult population of Brazil, they equally account now for more than 1/3 of the personal market in the country. So demand is not a constraint. Our product has one of the best NPSs that exist in the market, as David pointed out. The conversion seems to be quite healthy. So our ability to deploy the best-in-class product and to convert is not a constraint. Capital and liquidity are equally not constraining factors. So the single largest constraining factor for us to grow in personal loans -- in unsecured personal loans is really our comfort with our credit underwriting and the prospects of the Brazilian economy. So we will watch it now quite carefully. We are very excited with the prospects, but we do believe that kind of it would serve us better to be more disciplined at this point in time and accelerate when the market sends us better signals, and we are more comfortable with our ability to successfully deploy our models in this segment. It is, however, slightly different from the secured credit products, I think for secured, especially payroll loans, FGTS and investment-backed in loans, I think the credit underwriting is less of a concern. And our ability to ramp up those products will not be constrained by that dimension.

Mario Lucio Pierry: Okay. And Lago, if I can ask the other question then related to your cost of funding, right. You show that 95% of CDI has been improving. You said during your remarks you expect it to continue to decline in the next couple of quarters until it reaches a new level. What is that new level? What is the sustainable level that you're looking for?

Guilherme Marques do Lago: Yes. So just stepping back, Mario, for one second. So we started to deploy the Nu remuneration strategy for NuConta in mid-July. We ramped up very carefully from mid-July until the end of September. And only by the end of September did we reach about 97% rollout. So the impact of the lower funding costs to our financial results in the third quarter of 2022 are still relatively limited, so our funding cost decreased in the quarter to about 95% of CDI. I believe in September, it was down to about 91% of CDI. The full impact will only be felt in the fourth quarter of the year, most likely in the first quarter of 2023. Really hard for us to draw any high conviction, know direction on where this will end. It will largely depend on the behavior of the consumers going forward. So far, we have been tracking the implications of this move to 3 dimensions, to asset inflows, NPS and engagement. We have not seen any material impact on that, so we are very confident that this was the right move for the company to do and also for our customers. But I'm really not in a position, Mario, to provide you with high conviction guidance on where this went.

Mario Lucio Pierry: Okay. But like when we look at the traditional banks, I think that the cost of funding is closer to 60% of CDI. Do you think you should eventually be able to reach a level similar to them? Or should you always have a higher cost of funding than the incumbents?

Guilherme Marques do Lago: I think 65% would be too big of a drop in our cost of funding. I think for this first move in the reduction of our cost of funding, I would expect something between that and our current funding cost.

Jörg Friedemann: And our next question comes from the line of Tito Labarta, Goldman Sachs.

Tito Labarta: David, Lago, Jorg and Youssef. Congratulations also on the strong results. My question, a little bit of a follow-up on the personal loans but more just thinking from the asset quality perspective. I mean your NPLs held up fairly well, considering we've seen in the market and some of the incumbent peers. But looking at the early NPLs, they were up 50 bps in the quarter. Last quarter, they were stable. You had mentioned that, that was a good leading indicator for the outlook for asset quality and potential acceleration on your personal loan portfolio. Just to get a little bit more color on that. And I know part of the impact was because of the slower origination, you mentioned, and that impacted those early NPLs. But how do you think about that going forward? Was it simply due to the slowdown in the origination? I don't know if you have color between like credit cards and personal loans with those early NPLs. How do you think about the early NPL sort of evolving from here?

Youssef Lahrech: Tito, this is Youssef. Thank you for your question. So as I mentioned in the earlier remarks, thinking about the early NPLs, 15 to 90, they did increase by 50 basis points in the quarter and there were 2 drivers. As you mentioned, one driver was the deceleration in personal loan originations and so-called denominator effect. But there was a second driver, which was kind of broad-based deterioration, similar to what other players in the market have seen. And so those -- it was the combination of those 2 factors principally. Now with respect to going forward, we're watching the performance of all our portfolios, all our cohorts there very closely and all the 3 -- the macroeconomic backdrop in the 3 markets in which we operate. Given the uncertainty that we're going through, it's really hard, Tito, to give you any high conviction outlook for going forward and for 2023. But what I can tell you with a high degree of conviction is that we're very confident in our ability to monitor, to take action quickly and to navigate the cycle as we have navigated prior cycles. We have a relatively short-duration credit portfolio, both in credit cards and personal loans. And so we're confident that any actions we take will be -- will have a high impact and be reflected in the performance of those portfolios. And if anything, the resilience of our origination has increased over the last 2, 3 quarters as a result of those actions. You can see that in particular in the increase in risk-adjusted NIM that we show in the results presentation.

Tito Labarta: Great. That's helpful. Just to maybe explore a little bit further, both on -- is this something that you'll be monitoring to be able to accelerate the personal loan growth? And the other thing that we've heard from incumbents and I think you may have mentioned in the past, that the NPL cycle could potentially peak, I don't know if it's 4Q or early next year. I mean just in terms of when you think you could be beyond the worst of it. I know it's hard to predict. But is it a quarter or 2 because they are very short-term loans? So just to think about how long this credit cycle could potentially last.

Youssef Lahrech: Yes. Yes, Tito, it's -- turning points are notoriously hard to predict with any level of confidence or accuracy. So I wouldn't -- I personally wouldn't venture a guess as to when we will see the peak and when things will turn. But again, I can tell you that we're confident in our ability to -- when we see things evolving in one direction or another, take action very quickly as we have over the last couple of quarters.

David Velez-Osomo: Tito, David here. Just to add here to Youssef. I think the big advantage of personal loan as a credit product is, as you say, very short-term duration, very high, very information-rich. So we get to monitor the performance of this product and this portfolio really basically daily and are able to make decisions around acceleration or deceleration across pockets of the different portfolio depending on what we get to see. So I think this quarter, there's been much more volatility in the space as is expected. And so the prudence that we show is warranted. We're absolutely in the low cut-off of seeing opportunities to accelerate in certain pockets of the portfolio and we're ready to do that once we start feeling a bit more comfortable.

Jörg Friedemann: And our next question comes from Thiago Batista, UBS.

Thiago Batista: So congratulations on the results, a very strong bottom line. I have one question about the high-income segment or the affluent segment. As shown in the slides, Nubank has a very small presence in this segment. Do you believe that this should be a focus of the bank going forward? How big this should be for Nubank? And if you believe Nu need to change the approach for the segment, for instance, maybe, have advisory for investment or kind of manager for the banking business. So if you believe this affluent segment should be more relevant for Nu or not.

David Velez-Osomo: Yes. Thanks for your question. Absolutely. It is a big opportunity we have. As you see that around 8% for a business of around 66 million customers in Brazil. That means we have over 5 million customers high income, which is a pretty sizable percentage of that market segment. Right now, we don't tend to have -- we don't tend to be #1 share of wallet for that customer segment. A lot of the times is missing limits so we tend to have too low of a limit for this customer segment, or the product is missing certain attributes, either the credit card product or we're missing products in the investment side or the insurance side. So a lot of the focus over the past year, [with boletos] has been about closing those gaps. There's been a lot of investments in us trying to figure out how to increase limits for the higher income population. It is going to be a key focus for us next year, as if we manage to take that share of wallet for that high-income customer much up, that actually moved the needle pretty significantly for the portfolio and brings a nice diversification also. So I think you -- yes, you bring a pretty good point in -- it's a key big focus for us.

Jörg Friedemann: And our next question comes from Geoffrey Elliott from Autonomous.

Geoffrey Elliott: First, just a quick clarification. The slides on NPLs by income band, I think they used the old write-off methodology, the 360 days for both personal loans and credit cards. But could you tell us what that NPL ratio, the 90-day past due ratio would have been under the prior methodology for the whole portfolio rather than by individual income band?

Youssef Lahrech: Geoff, this is Youssef. So thank you for the question. Yes, you are correct. Those slides that announced this was done on the basis of the old write-off methodology. And just as a reminder, the principal difference between the old and new write-off methodology is that for personal loans, we now write off at 121 days delinquent. We used to write off up at 361, similar to credit cards. So to your question, NPL 15 to 90 would have been substantially similar, up 50 basis points in the quarter because there's relatively little impact of the change in methodology on early delinquencies, as I mentioned. 90+ NPLs would have increased 130 basis points in the quarter. Why the larger increase? You have to think about the fact that the difference between the 2 metrics in the old write-off methodology is basically made up of all the personal loans that were 121 all the way up to 360 days delinquent. That pool of loans is basically a reflection of the growth in the personal loan portfolio between 2 and 4 quarters ago, right? Because those were delinquents between 4 and 12 months. And between 2 and 4 quarters ago, our personal loan portfolio grew by about 50%, as you can appreciate in the results presentation, I believe it's Page 15, which Lago went through. So it's merely a reflection of the increase in the size of the book that would explain that higher increase in 90+.

Geoffrey Elliott: Thanks for clarifying that. And then just stepping back on the deterioration, I appreciate it's broad, it's happening at other banks. But in some ways, it's kind of confusing that this would happen now when you've got fuel tax cuts, unemployment falling outside our Brazil welfare payments increase. What's your take on what's going on and why there is this broader deterioration in credit across the industry?

Youssef Lahrech:Yes, it's a great question, Geoff. I think there's a number of puts and takes and a lot has changed in the last year or so. There's been normalization from very low levels of delinquency about a year or so ago. There's been increase -- the high levels of inflation. And there's been changes in government assistance programs, right, which peaked in 2020, dropped a fair bit in 2021. There's some view that it might increase again under the new administration. So there's a lot of puts and takes that have moved things in different directions. So it's hard to pinpoint exactly what is the driver right now that we're observing.

Jörg Friedemann: And our next question comes from Marcelo Telles from Credit Suisse.

Marcelo Telles: Congratulations on the very strong results. My question is with regards to asset quality. It's very interesting to see your asset quality performance decoupling, right, from the rest of the industry for those specific product. So -- and it's interesting, especially in the context that when we see, for instance, players kind of pulling out a bit from the credit card segment such as Banco do Brazil or Bradesco. So can you explain to us what do you think is making you so different vis-a-vis incumbent players? Is it the amount of data you have on your clients, how you work with that data? Or is it also the fact that you have a lot of clients that are really not open account clients, meaning clients that have accounts with new banks who have more transactionality? So how should we think about the reasons for that better performance?

Youssef Lahrech: Yes. It's Youssef again here. Great question. I'd say there are several factors that explain and are at the root of our underwriting capabilities. As you mentioned, there is data richness, which takes the form for the vast majority of our customer of not only external data we get from credit bureaus and the like but actual experience and transaction data with us. The vast, vast majority of credit card customers already has a deposit account where we can observe and gather data on their deposits, their activity. 100% of our personal loans customers come from cross-sell, so we already have not only deposit account data but also credit card experience and data. So that gives us a lot of rich information on which to underwrite. That's certainly a big driver of it. I would say we've also built, over the last several years, a lot of discipline in terms of process and methodology that we use to monitor our portfolios, all our cohorts and take action in a very rapid cycle. We've built that process, that methodology but also the technology and the pipelines to be able to do that, to be able to deploy new models in rapid fashion and also a strong kind of governance and credit culture in the company. So we focus a lot on maintaining discipline of resilience and returns. We have multiple lines and levels of reviews whenever we make credit decisions. So it's a combination of several factors that we think are at the root of that. And ongoing testing, I should say, to make sure we understand all of the causal drivers of credit performance and of overall returns.

David Velez-Osomo: I just wanted to highlight one point that you should measure. I think it's important to highlight here, which is while, let's say, 4, 5 years ago, we were really giving credit cards to customers that we did not know since we started just with a credit card product. Today, we really are cross-selling to a base of account holders. We have over 50 million account holders in Brazil and only about 32 million credit cards. So we get to really understand the financial situation of these customers. They -- about 55% of them, we become their primary bank account so with their primary relationship. And once they're establishing their salary in their account, when they start paying, once they start using PIX, which, by the way, we're one of the largest players in PIX in Brazil, then that gives you a lot of information to get comfortable with giving a credit card, which a lot of the times begins with a low limit. And that's the way that we manage our downside risk. We begin with a low and grow strategy. Limits are low. And as we get to know this customer more over the next 6, 12 months, this limit goes dynamically up. And in situations with much more volatility like the one where, today, we get to not increase limits or increase just a bit slowly. So it really ends up being a different approach than I think of the fintechs in the market today that are really going after monoliners or they just have 1 product of credit and then that by default attracting at times, a lot of adverse selection.

Marcelo Telles: Very clear. And if you allow me, just to follow up with one question kind of tied to this in terms of product cross-sell that you mentioned. When you think about your mature customers, it's quite remarkable. Your mature customers, now, I think you have an ARPAC of around $22, which I think is actually an increase from the $21 you had in the previous quarter despite the currency depreciation quarter-over-quarter. So what are the products that you have to cross-sell to get to that $22 of this mature client? Is it just, let's say, more usage of the credit card or getting bigger credit card limits or maybe it's insurance or other types of products. How should we think about the path towards the $22 ARPAC?

Guilherme Marques do Lago: So that is a super good question. I think when you look to the mature cohorts that we have today, the majority of those ARPACs is basically composed by interchange of Nu prepaid cards and credit cards and with a very small yet penetration of personal loans. Going forward, I think, as we increase personal loans penetration in our base, both unsecured and secured, a substantial amount of ARPAC should actually be associated with this specific cross-sell. So what we have seen is ARPAC expansion as of today has been primarily driven by the upsell of credit cards and prepaid accounts and prepaid cards and investments. Going forward, it will equally be driven by the cross-sell of new products, personal loans, secured, unsecured investments, insurance, marketplace, Cripto and SME accounts.

Marcelo Telles: Very clear. Congrats again.

Jörg Friedemann: And our next question comes from the line of Pedro Leduc, Itaú.

Pedro Leduc: A little bit on credit cards, please. So here on the personal loan, a deceleration and recall this being offered mostly to your credit card clients, the better piece of it. How is that making you think about credit cards, how you're adapting? And as I think about coverage ratios and your expected loss model probably being fed with new data as is everybody is a little bit worse data, shouldn't it be resulting in higher coverage ratios for credit cards? How should we think about coverage going forward and this new probably a little bit worse scenario?

Guilherme Marques do Lago: Thanks for your question. I think we have seen increases in individual coverage ratios of the balances that we have. They actually went from about 9.7% to 10.6%. And the coverage ratios of credit cards have also gone up a little bit, if you take a look in our explanatory notes in our financial statements. I think going forward, we are quite comfortable with the coverage ratios that we have for both Nu personal loans and credit cards. As the 90+ NPLs begins to stabilize, we think that the overall coverage ratios of the industry and ours will start to converge back to pre-COVID level. But so far, I think credit card coverage has gone up. And overall, coverage ratios are above 200%, probably going below 200% once the 90+ NPLs stabilize.

Jörg Friedemann: And the next question comes from the line of Rafael Frade at Citibank.

Rafael Frade: I have a question about the Slide 14. In the Slide 14, you show the breakdown of the transaction volume by prepaid cards and credit cards. I was a little surprised by the size of prepaid cards in the total transaction volume. I would like to understand how this translates to the credit card portfolio, if the credit card portfolio has more or less the same breakdown or not. And a second question would be related to the interest-bearing loans, that there were a significant increase in revolver lines on the total. I would like to understand if this is something that it's by design, you are provoking this or it's related to the need for the clients to use more revolving lines to understand a little bit about this.

Guilherme Marques do Lago: Thanks for the question. Let me try to split them in 2. So first, I think on Slide 14 and I think your second question is probably more related to Slide 16. But I think to the first question, what you have seen here is the evolution of the purchase volumes for both credit cards and prepaid cards. You can see that the prepaid cards have outpaced Nu credit cards over the past 4 or 5 quarters. And our market share in prepaid plus debit volumes has started to catch up with that of credit cards. I think for credit cards, we have approached the market share of about 12%, 12.2% in the third quarter in terms of purchase volumes. I think prepaid cards, we used to be slightly below that but we are quickly catching up. The average purchase volume on prepaid cards is slightly lower than the average purchase volume of credit cards, and that's one of the reasons why you see on the right-hand side of Slide 14, that the newer cohorts start with relatively lower levels. So I think that's the answer to your first question.

Rafael Frade: No, just I would like to understand also how this translates for the credit portfolio. So when I look for the credit card portfolio, part of it is related to prepaid cards or there's only credit cards?

Guilherme Marques do Lago: No, I think it is -- credit card, it's only credit cards. There is no nexus between the purchase volume of prepaid cards and our credit book of credit cards.

Rafael Frade: Okay, perfect.

Guilherme Marques do Lago: Then going to your second question, I think I would draw your attention to Slide #16, and we try to break down the credit card portfolio in 3 buckets, as you can see. So you can see the non-IEP, the revolving IEP and nonrevolving IEP. And there are 2 things that I would draw your attention here. So first, I think we have an IBB, interest-bearing balance, as a percentage of the total portfolio that has been below that of the industry and we have been catching up over time. Now we have not been catching up over time by increasing the revolving balance. So if you take a look, the revolving balance have remained pretty much stable between 6% and 7%. What has really driven the growth in our IBB has been the increase in the financing portfolio that went from 5% to 10%. And that has been a very intentional addition of Nu products and features that we have added into credit card that basically allows consumers to basically take financings within the credit card like PIX financing, boleto financing and even Nu financing. Those are intentional features that we have successfully launched over the past quarters that have increased the usage of credit cards to our customers. Now it's important to mention, as I think Youssef highlighted in his opening remarks, that even though those are described as financing features within credit cards, they are accounted for as the credit card family. So there is no transferring of receivables or financing from credit cards to personal loans or vice versa.

Jörg Friedemann: And our next question comes from the line of Jamie Friedman at SIG.

James Friedman: So in prior calls, you had disclosed some detail about principality. I don't see it in the slide deck. I may have missed it, I apologize, Lago. But any commentary you might have on principality would be useful.

Guilherme Marques do Lago: Sure. I think let me draw your attention to Slide 12. So in Slide 12, on the left-hand side, you can see our definition of primary banking relationship customers. So first, a little bit of definition. What we -- how do we define a primary banking relationship customer? So we define a customer to be our primary banking relationship customer when he or she transfers to Nu every month more than 50% of his or her post-tax income, right? So when he transfers to us more than 50% of your post-tax income, we consider that you have become our primary banking relationship customer. And 2 things I will draw your attention in this chart. So first, you can see that across all of the cohorts, starting from January '17 until January 2022, we have become the primary banking relationship of more than 50% of our customers. So we are not again in the business of collecting social security numbers. We are in the business of becoming the primary banking relationship of our customers. The second thing that I would highlight in this chart is that we are getting to 50% primary banking relationships faster and faster. If in January -- for the January '17 cohort, it took us about 60 months to get there, now it's taken us less than 12 months to get there. Why is this happening? I think it is happening for 2 reasons: One exogenous, the other one endogenous. The exogenous one is I think the advent of digital banking has been embraced by more and more Latin American consumers. PIX has been a massive tailwind for the adoption of digital bank in Brazil specifically. The second reason is more endogenous. If you take a look at the chart in the middle of this slide, as we launch more products, as we launch more features, we earn the right to be the primary banking relationship of more and more customers. We have a much more compelling value proposition. If you were a customer of Nubank back in 2017, you would have only 1 product, credit card. Now you have multiple products. You have credit cards, prepaid cards, bank accounts, investments, insurance. So that has also been a phenomenal engine to take up the primary banking relationship of our customers.

James Friedman: Okay. And then for my follow-up for Lago or David, in both your prepared remarks, you mentioned the secured lending initiatives. Just wondering how we should be thinking about the impact on margins as you roll out more and more secured lending products.

Guilherme Marques do Lago: So I think on the secured lending product, there are 2 things that I would highlight, and specifically on consignado payroll lending and investment-backed loans. First and foremost, the amount of upfront provisioning that we have to constitute and build is lower than unsecured payroll -- unsecured lending. So our payback from an accounting standpoint is faster. The second one is that the secured personal loans, they draw much less capital than the unsecured personal loans. And therefore, the risk-adjusted net interest margins are fairly compelling as well as the return on capital are equally very compelling. It's important, however, to view the right expectations. We are super excited with the launching and the ramp-up of the secured lending business throughout 2023, but it's very uncertain how fast this ramp-up will happen. So we do believe that most of the originations that we're going to have in 2023 will remain coming from unsecured personal loans. I think the secured personal loans is a ramp-up story that will likely get traction starting in the first half but more heavily in the second half of the year.

Jörg Friedemann: And our next question comes from the line of Eugene Simuni at MoffettNathanson.

Eugene Simuni: Thank you for this detailed presentation. I wanted to ask a relatively high-level question just on the gross profit margin trajectory tick-up this quarter. Could you talk us through a little bit what are the kind of the puts and takes that created this tick-up this quarter? And how permanent is this trajectory up of the gross profit margin?

Guilherme Marques do Lago:Absolutely. So I think this uptick that we had in the gross profit margin has been driven by 2 things primarily: number one is the velocity of the growth of the credit portfolio; and number two is the movements in interest rates. So as interest rates go up in the country, as they have gone over the past 6, 8 months, you actually see a compression in the gross profit margin. And as interest rates stabilize in the country, it opens room for gross profit margins to reconverge back to their original levels of high 30s, low 40s. The second thing is as we basically accelerate the ramp-up of secured personal loans, this should allow us to equally improve our credit portfolio and increase our credit portfolio without putting as much pressure to our gross profit margin as the growth of unsecured credit portfolio. However, if and when we do accelerate unsecured personal loans, I think it was one of the questions that I believe Mario and Jorge asked us at the beginning of the call, it will put additional pressure on gross profit margins because we will again have to basically front-load the constitution of provisions. So there will be a few puts and takes going forward. And we will expect that this will be preserved or expanded mildly over the coming quarters.

Eugene Simuni: Got it, got it. Very clear. And then for my follow-up strategic question, wanted to ask you guys to comment quickly on your strategy as it relates to Cripto. Over the last quarter, there's been a couple of interesting developments with Nu coin and with the announcements about the fast trajectory of NuCripto reaching 1.3 million users. So maybe just give us a brief overview of, at this point, where does Cripto fit in into your ecosystem. Is it primarily an engagement driver, a user acquisition driver? When it will become or could it become a significant source of revenue. Just if you can give us some high points on that, that would be very helpful.

David Velez-Osomo: Sure, absolutely. So obviously, a lot of noise around crypto these days. But for us, it's been mainly a factor around customer engagement and support in providing a product that customers are actively asking about. Over the past 12 to 24 months, we would actually see more outflows going to Cripto brokers than to even invest -- traditional investment brokers. And so there is a huge amount of interest even through this winter -- this crypto winter. And we've been just surprised about the level of adoption in our own Cripto platform of surpassing 2 million Cripto users, getting to 1.3 million actives. So we want to be with customers here, and this is an asset that customers are continuously invested behind. That's number one. We've also announced that we're working on our own Cripto token related to a potential loyalty angle across our entire ecosystem. We're still in the process of setting it up with Polygon. But I think we ultimately think about this as a really big lever to increase loyalty and engagement across all the different products that we have in our ecosystem. And perhaps even go beyond as we start building a marketplace between the 70 million customers we have on one end and the over 2.3 million small business customers that we have on the other hand as well as the large big merchants that are selling in our marketplace today. So we are excited about using this -- using Cripto here as an enabler of that loyalty. And we'll see. We'll continue to invest behind and are excited about the opportunities that the technology can provide to us. Jorg Friedemann IR Officer, Nu Holdings Ltd.

Jörg Friedemann: And our next question comes from the line of Scott Wurtzel at Wolfe.

Scott Wurtzel: It's great to see the monthly active rate continue to expand. But just wondering really how we should think about it going forward, just as it continues to sort of expand into this above 80% level and the amounts of nonactive users continues to decrease. Just wondering what sort of -- how you're thinking about the trajectory of your monthly active user rate, and if there's any sort of shift in strategy you're pondering to sort of get this ever-shrinking amount of nonactive users who transition into monthly actives.

Jagpreet Singh Duggal: Scott, thank you for the question. This is Jag Duggal. I'm the Chief Product Officer of Nubank, and I'll take a stab at your great question. A few thoughts. First of all, as Lago noted earlier, we've seen a strong consistent trajectory now multiyear of improving our monthly active rate, as you've seen. So no doubt, as we continue to hit higher and higher levels, the rate of growth is going to slow and the difficulty of continuing to tick it up is going to get harder. But we are determined to continue to try to see how far we can push it. Frankly, we've been surprised at how much we've been able to continuously push it up and to the right. The other thing I would highlight and goes back to a question that someone asked a bit earlier is we continue to focus not just on our monthly active rate but on increasingly deep levels of engagement, whether it's our daily active rate over monthly actives or so-called DAU/MAU, which I think David noted, continues to go up. So even as our monthly active rate starts to hit some boundaries, we think we can push an even deeper level of higher engagement in DAU/MAU further up. And that's significant focus of the company as we head into 2023. And similarly is we've talked a lot about our primary banking relationship rate, which continues to edge up continuously. So even as our baseline engagement in monthly actives will no doubt hit some level of saturation at some point, we believe we can continue to drive engagement up at deeper and deeper levels, whether it's DAU/MAU, whether it's primary banking relationship and really the confluence of the 2. But as we have always done, and as Lago and David both pointed out in their presentations, the engagement of our customers and the NPS and the love of our customers of the products we provide is our north star, and we continue to see if we can push the frontier there. And that's all. That's been our focus and will continue to be as we go forward.

Scott Wurtzel: Great. That's very helpful. And just as a follow-up, sort of a similar topic. But when we sort of look at the new geographies in Mexico and Colombia, I know it's early days there, but anything you can sort of share color-wise in terms of what you're seeing with activity rates in those geographies, maybe relative to what you're seeing in Brazil and also relative to what you had seen sort of in the early days of your launch in Brazil as well?

David Velez-Osomo: Sure, absolutely. So we added -- this is Slide 5, a bit of some data on the growth.But I would basically answer your question saying that both Mexico and Colombia are beating Brazil at effectively every single metric, from growth rates, virality rates, CAC, ARPAC, NPS, really you name it. It's been really surprising to see both countries operating at a higher level than Brazil as we frankly thought initially that the Brazil story was going to be hard to beat. You don't really see any other examples globally of a financial services firm growing virally through word of mouth. And so when we thought about taking this to Mexico and Colombia, we're not expecting that. We think partly what's happening is that there is actually a better product market fit in these countries. Financial services penetration is lower. And so in Mexico, for example, we have a Net Promoter Score of 94, which is really the -- probably the highest NPS of any consumer product in any category globally. So that's just sort of the product market fit we see in this market. And just the lack of access to financial services ultimately is a very, very big pain. So we're very encouraged by the example of these 2 countries. Still a lot to prove. We still need to launch savings. We still need to release our play, to an entire multi product playbook, but so far, feel very good about the track record in both countries.

Jörg Friedemann: And our last question comes from the line of Alex Markgraff at KeyBanc.

Alex Markgraff: To start, maybe just to continue on that last thought, David. I think you had mentioned some rough timing of the launch of the savings and checking products in your other geos. Any more specifics you can provide to kind of indicate where you are in the process of launching those and maybe what steps are left or what you're waiting on with respect to those offerings?

David Velez-Osomo: Sure. So they both -- really the bottlenecks have been a lot of the regulatory permissions. We acquired a license in Mexico and are in the process of applying for a greenfield license in Colombia. In Mexico, we're very close. I expect that we will be testing this product with customers still already this quarter, already in Q4 and accelerating ramp-up if everything goes according to plan with regulators through 2023. Colombia should also be an MVP testing customers in 2023 but probably towards the second half of next year. But definitely, the delivery of savings for both countries should be happening next year at a larger and larger scale.

Alex Markgraff: Super helpful. And just a quick follow-up on, I think, it's Slide 12, the kind of products per active customer per cohort. Can you just describe the kind of credit versus noncredit mix as you look at some of those earlier cohorts?

Guilherme Marques do Lago: Yes. So I think the first high penetration product is credit card, which is more of a credit one. But all of the other products, with the exception of personal loans, which was launched over the past 2 years only, are noncredit products. So the most relevant products that constitute, [ensure] the cross-sell that you see on the chart in the middle of Slide 12 are noncredit such as NuConta, the bank account, investments, insurance, marketplace, PIX. Those are all high engagement, known consumer credit products.

Jörg Friedemann: And this concludes our conference call today. Thank you for attending.

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