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Conference Call Transcript
Banco Inter
1Q22 Results

Operator:

Good morning and thank you for standing by. Welcome to Inter 1Q22 earnings conference call. Today's speakers are: João Vitor Menin, CEO, Alexandre Riccio, VP of Finance, Helena Caldeira, CFO, and Santiago Stel, Strategy and IR Officer. Please, be advised that today's conference is being recorded and the replay will be available at the company's IR website.

At this time, all participants are in listen only mode. After the prepare remarks, there will be a question-and-answer session. For the Q&A session, we ask you to write down your question, via the Q&A at the bottom of your screen. Your name will then be announced, and you will be able to ask your question live.

At this point, a request to activate your microphone will appear on your screen. If you do not want to open your microphone live, please write down “no microphone” at the end of your question. In this case, our operator will read your question loud. Please note that there is a translation button at the right side of your screen, where you can choose the language you want to hear. Now, I would like to welcome one of our speakers for today, Mr. João Vitor Menin, CEO. Sir, the floor is yours.

João Vitor Menin:

Good morning, everyone. Thank you all for joining our earnings call for one 1Q22 results. Before I start, two highlights: first, I'd like to welcome Santiago Stel. Santiago just joined us as our head of strategy and IR. Santiago spent the last ten years on Morgan Stanley covering investment bank and, it’s funny that he was in charge of doing our IPO back in 2018. He knows quite well about the business and about our culture, the *Sangue Laranja* culture. Also, we're celebrating four years since we IPO the business pack in 2018. And as you might recall, we are very proud of doing IPO, and three other followed on us since then.

Talking about the 1Q, I’d like to do very sharp statements. We had a very good quarter and the reason why I say it is that first: we kept growing our business. We are a growth company, and second: we kept innovating, we are disruptive. We just launched, for example, our sixth vertical the Cross Border Services. Also, we’re able to navigate well despite the market trends in Brazil and the volatility in the capital markets.

I’d like to say that instead of reacting, we prepared ourselves, and I would say that we prepared ourselves maybe five, six or seven years ago. We started building our business model back in 2015. And at that time, what we’ve wanted to have was a retail banking business which would help us to have a very good quality and cost of fund. Also, a good breakdown between NII and fee income. Those two things together would also deliver the best value proposition for our clients. And I would say that that's exactly what to achieve today, and that's why I say we're prepared to discuss in our heads.

The outcome of it is that we keep growing the business, the platform is growing in a fast pace. We will hit 20 million clients by the end of these months. I'm very proud of that. And thank you all our clients that are listening to this call. Also, as I mentioned, we will print a good balance, something around 65 and 45 breakdowns between NII and fee income. This will help us to have a sustainable business despite of the market trends, and also, will help us to be an asset light company despite being the back.

On the operational average. We're very excited as well. We see more ARPAC (the revenue for active clients) kicking in. The reason for that, we have five different credit verticals. We have six different fee income verticals, and as I mentioned, we are gaining more clients. So, the ARPAC will keep growing. Also, we improved our CTS (our cost to serve), which is a very good number, when you compare it to the incumbent base.

We believe that we will keep diluting our general expenses, for instance: employees, which is a big chunk of it. We added 2 thousand employees last year. We would not, for sure, add 2 thousand employees in 2020. We launched a lot of products. We implemented a lot of things in our Super App. So, it's there. It's time to make all our clients to use this service that we provide over there.

Last but not least, the competition is slowing down. We see what's happening in the capital markets, so we believe that with less competition, our franchise will perform even better. I think that we'll have an even lower CAC, despite of having the best CAC in the market. We will have more growth despite growing quite well for these past years. And last, I would say that a lot of engagements which will drive ARPAC ahead. With that sets, I will pass the microphone to Alexandre of best, that will go through, the six verticals of our business.

Alexandre Riccio:

Good morning, everyone, and thank you for being with us. As most of you know, we operate six business verticals which complement and reinforce each other. Having added Cross Border Services as our sixth vertical after acquisition of Usend in a process that started last year. I'll go through the highlights of each vertical.

Starting on Day-to-Day Banking, we had stellar growths on cards with volumes increasing by 86% year-on-year. In this quarter, 5.8 million Brazilians used our cards. Transactional Banking, which is this first Day-to-Day Banking vertical has consistency been a very strong vertical for Inter in market share, shown through demand deposits share and peaks market share, for instance. Moving to Credit, our expanded loan portfolio approached the R$20 billion Mark, of which R$4.5 billion were originated during the 1Q.

22% more origination than on the same period of last year. Our lanes have been moving north of 7%, reflecting the efforts that we're making on repricing of the portfolio. Talking about insurance, our Inter Seguros vertical, we had outstanding results in the quarter with revenues growing over 50% year-on-year. Our client base achieved 915,000 close to our aspirational goal of 1 million that we established back in 2019. Throughout diversification contextualized sales and focus on user experience continue to pay off as we go.

On investments, revenues reached R$37 million in the quarter, an impressive 144% increase year-on-year. 2 million clients are operating the platform as of the 1Q22. Moving to page 11, I will dive a little deeper on Inter Shop, our marketplace vertical. Our revenues grew 135% as compared to a year ago reaching R$101 million in the quarter.

As you can see, GMV grew 56% and we were able to considerably expand our take-rates. On the gross basis, take-rates expanded to 9.6%. On a net of cashback basis, it nearly tripled from 1.1%

to 3%. We're able to navigate through a typically weak quarter for retail with very impressive KPIs.

Finally, I'll talk a little bit about our newest vertical, which is Cross Border Services. This line of business results from the acquisition of Usend, which was closed in January of this year. The core of the business for now is the remittances from Brazilians living in the U.S. that recurrently transfer money back to Brazil. And going forward, we will have a fully integrated platform that will tap on the technology stack that we have in Brazil.

Our Cross Border Services vertical already has significant volumes being transacted, with more than US$200 million in remittance TPV during the first quarter, more than 54 thousand global accounts opened and peaks of around 3 thousand new global accounts a day. We're excited with the growth of this vertical and with the optionalities that it brings to our business. With that, I'll pass the word to Santiago. He will talk about our financial performance. Thank you.

Santiago Stel:

Thank you, Alexandre. Good morning, everyone. Now moving to page 14, this image illustrates how we think about the long-term value creation of Inter. By being on the one-hand the largest purely digital regulated bank in Brazil. And on the other hand, by having a highly recognized and established brand. These two factors combined have allowed us to attract clients at a very low CAC, consisting in low R$30 per client.

The result has been higher growth in our customer base. Giving us a position potential in two fronts: first, on the interest income to spread across multiple products. And second: on fees, which is asset light and recurrent, and expands beyond just financial services. The monetization impact combined with increasing cost to serve, had allowed us to deliver strong shareholder value, acceleration and leverage continues to materialize.

Moving on to page 15, our expanded loan portfolio reached in the quarter R$19.8 billion. This represents an expansion of 81% year over year. On a quarter-by-quarter basis, our growth has intentionally been more modest as we have tightened our underwriting models, particularly on credit cards, prioritizing existing clients over the new ones. We expect growth to re-accelerate in the reminder of the year, particularly in the second half.

This worth noting that consistently through time our loan mix continues to diversify across multiple products, decreasing the concentration risk of our exposures on asset quality, and we see that remain strong, as a result of the structure of our balance sheet. Starting from the left, you can see that from our expanded loan portfolio 73% is collateralized and over the interest-bearing portfolio, the collaboration level reaches 94%.

Our coverage ratio remains stable, through the quarters outstanding at 93%. We look at the coverage ratio on a byproduct basis, credit cards and SMEs are well above 100% coverage. Lastly, on the right-hand side, our NPLs is 3.3% of the total number following the quarter. When our product-by-product basis NPLs had increased marginally, with the exception of SMEs, which decreased during the quarter.

Going on to funding on page 17, our funding base, which is R$23.2 billion in the quarter, an increase of 64% year over year. Given their rate environment, combined with the seasonality of first quarter, we've seen client interest naturally more focused on the higher yielding products such as time deposits and LCIs.

Despite this dynamic our market share of demand deposits increased in the quarter and remains a competitive advantage for us at Inter, particularly on an environment of increasing rates. Our cost of funding, as percentage of Selic, reached 53% and remains one of the lowest in the industry.

Going to page 18 on revenues, there are three key points that I'd like to highlight. The first point is growth, as we delivered an impressive 130% growth year over year, which is R$1,2 billion in the quarter, an absolute record for us and our value comparable to what we produced an entire year in 2019 or 2020.

The second point to highlight is the diversification of our revenue rates. This diversification is noticeable on breaking revenues sensitive fees versus gross interest income. We can see fees this quarter surpassing the 40% mark which is something we are pride of even the capital light and recurrent nature of the fee business. And the net interest rate since the share office rather more outstanding at 58% of total rooms.

The diversification is even more pronounced when swimming into the components of interest and fees which you can see in the bite on the right-hand side of the page. The third and final point to highlight on revenues are marketplace revenues. These are a nonfinancial revenue stream that started only two years ago and is still in the early winnings of its development. These revenues in the quarter which are R$100 million, representing 19% of our fee revenue or 8% of our total from revenues. Moving on to page 19 on unit economics, we're doing an in-depth work to show.

The analysis on a cohort-by-cohort basis, which will be ready for filing with you in the next earnings call. On the left-hand side of the page, you can see that our CAC remained consistently below R$30, and on the center, you can see our ARPAC continues to expand now reaching R$367 on an annualized basis. Worth noting that here we're still showing our ARPAC deducting Inter's expenses. And finally, on the right-hand side, you can see our costs to serve which has remained at around R$110 per client.

It is worth noting that this CTS is fully loaded. We expect the increase in CTS to be more pronounced going forward. As I already mentioned at the beginning of the call, we doubled our employees from 2 thousand to 4 thousand last year, and this year we expect the increase to a single digit percentage.

Moving on to page 20 on gross profit, we can see a clear acceleration through time in the first quarter of each year being lower, even seasonality. The exception in seasonality for the first quarter of 2021 in the strong government support as a result of the COVID 19 pandemic. During 2022, we see a same logic of prior years and the remaining 9 months of the year, we are accelerating the trajectory.

On page 21, you can see that given the fragmentation in our loan portfolio and the strength of our deposit base owning has performed well we have small yet steady increase across borders as we continue repricing our loan mix particularly in payroll and real estate, which take longer to re-price the SME or credit cards.

And then we continue to expand as we are structurally long on Selic. On page 22, to conclude on net income, we achieved another positive result. Now with R$27 million in gain, we think that the operational levers impacting bottom line profitability will be increasingly visible the second half of this year. With that said, I'll pass it to Helena, who will go into on the corporate reorganization. Thank you.

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Helena Caldeira:

Thank you, Santiago, and good morning and thank you all for joining our earnings call. I want to make a small recap on our corporate reorganization. Last week on May 12th, we had the approval of the transaction in our shareholders meeting. We had an impressive support from our shareholders with over 75% of the float present on the shareholders meeting and 85% of approval rate.

With the reorganization approved, we will be listed on Nasdaq under the single INTR, and we will have BDIs listed on B3 with the ticket BIDD31. I will share some of the key dates for the completion of the transaction. We have a cash out period in which eligible shareholders can elect to cash out their stocks at the price of 19.35 per unit.

The cash out option will be kept at 10% of the free flow shares, which is approximately R$1.1 billion. If exceeded, we'll have a proration of the shares and shareholders will receive both the cash out for part of their shares and BDRs for the remaining shares. The cash out period started on May 13th and goes to May 20th. On June 17th, we have the last trading date of BIDI shares. So BIDI3, BIDI4 and BIDI11, will stop trading on the 17th, and we'll have on the following trading day on the 20th, the start of the BDRs on B3. After two days when the shareholders have these BDRs under their custody, they will have the option to break these BDRs into class A shares.

And, on the 23rd we have the initial listing of by INTR shares on Nasdaq. I remind you that all BDRs can be broken into class A shares any time after that. With that I will pass the word back to João, so that we can go later into Q&A.

João Vitor Menin:

Thank you, Helena. So, some closing remarks, but before that, just something I forgot to mention on my initial speech. We're very proud to be the best Super App on the west world. This is very important specifically at this moment. So, some remarks. We continue to gain market share, it's very important. We have a highly diversified revenue mix, also very important. Our loan portfolios, very highly collateralized, as I mentioned, started building that many years ago.

Our fund base is the best in class because of our retail units making business. We have a full bank licensed, not the payment components, a full bank licensed, which is very important for us. We're highly capitalizing liquid. We are going to continue expanding our margins as we scale. The employees are there, the business itself is there, the verticals are there, the Super App is there, the clients are there.

So, we're done with just going to gain this market share and this ARPAC soon. And last, as Helena mentioned, about our proprietary reorganization, I really would like to thank all our shareholders for supporting us since our IPO pack in 2018. I'm very happy that despite all of the ups and downs of the economy, the ups and downs on the market, we always had great support from our shareholders, and this is very important for our business. So, thank you very much. Now let's jump into Q&A session.

Thiago Batista, UBS:

Hi, guys. Thanks for the opportunity. I have one question about the Inter Shop. We saw a big increase in net take-rate during this the 1Q22. If I'm not wrong to 2% from 1.2% or something close to that. Can you comment if this is a new level of net take-rate or if you can see a further expansion of this net take-rate? And my second question is about the asset quality. We saw a sharp increase in the NPL ratio during the quarter. What can we expect going forward in terms of NPL ratio for Inter?

João Vitor Menin:

Thiago, João Vitor speaking. Thank you for your question. I'm going to cover the Inter Shop and later on, Alexandre will cover the NPL ratio. On Inter Shop, it's interesting because we hold some meetings with some investors last week and I was telling them that when we began Inter Shop, which is only two years from now on, we were almost begging for the retailers to be in our platform. And we're almost begging for the clients to try the platform and to buy things online.

Now, things are different. We see the retailers looking for ourselves to connect their products in our Super App. We have a very good capability of delivering them conversional sales to skip them are costs for them.

So, it's a very powerful combination and therefore, we can charge more in the take-rate side. Also, on the cashback we see many clients, current clients, using our platform and therefore we don't need to pay them as much cashback as we had.

The combination of these two trends equals to a better net take-rate, which we believe that this is the trend going forward. Of course, we might have ups and downs. It's normal, but the trend is positive. We think that we can with time aim on the 4% net take-rate for Inter Shop. That's what we're working to achieve. We're very excited with this initiative.

We've seen the retailers looking for us more and more, and we see the clients getting used to buy things on Inter Shop. So, this is the outcome and what we foresee for our net take-rate going forward. A positive trend improving buyer over buyer. That's how excited we are with Inter Shop. Alexandre is going to cover the NPL question.

Alexandre Riccio:

Thank you, João. Thank you, Thiago for the question. I'm thinking about NPLs and delinquency, First, I'd like to say that credit quality came along with our expectations. So, with the macro deterioration that we have seen in the overall, it was widely expected that we and the markets would see increasing delinquency in our case, specifically for credit cards. That is our non-collateralized type of credit, and it came this way.

So, we did see this increase on an adjusted basis from 6.5 to 6.6. So it's relatively low increase given the actions that we have taken mainly last year in October and November. We'll think our position to face this scenario is very positive, so we consider to consistently drive this strategy of having the collateralize portfolios close to 75% of our total exposure today is collateralized.

And having said that, going forward, we should deteriorate less than the consumer banks, as we have seen in this quarter as well. Our coverage ratios are healthy, and having said all this, we're ready to navigate through the next quarters in terms of where NPLs could go. I would prefer to wait and see, Thiago, because we have seen in the past, maybe in 2020, that different government incentives, for instance, have prevented NPLs from going up.

In the 1Q20 a lot of the banks made things like very large additional provisions thinking that things would go bad and thinking things did not go bad. Actually, they went well and the NPLs behaved super well after that. That's why we are working a lot to prevent NPLs from going up, doing our homework in all the credit lines and we'll wait and see what happens in the next upcoming months and quarters. Thank you.

Thiago Batista:

Thank you, João. Thank you, Alexandre.

Yuri Fernandes, JPMorgan:

Thank you, everybody. Thank you, João, Helena, Alexandre, everybody. I have a first question on capital. We saw some decrease on your core assure on this quarter about 9 hundred bips. We saw some increase in intangibles. So just checking if this is related to Usend. If you can comment a little bit on your capital position, that's the first.

And I have a second one regarding operating leverage and profitability. My question is, if you are close to the inflection point here, because we are seeing, you are repricing loans, I guess you are now repricing some credit card products, had accounts stabilizing, other administrative expenses are growing at more controlled pace quarter over quarter. So, my question is what do you expect for profitability in the second half?

If you can provide any kind of guidance for us here for thousand 2022 or 2023, that would be helpful. But I just wanted to understand a little bit more about this operating leverage. Where are we at that, and where should we start to see better results here. Thank you very much.

Santiago Stel:

Thank you, Yuri. Santiago here. I'll take the capital part of the question. Yes, our Q1 decreased by nine percentage points Four of those nine were related to two great growths. And 5 points were from Usend we assumed volume from the transaction the full impact of the goodwill upfront, even though there is a referred payment through earnouts to take an aggressive stance and absorbed collateralized ones.

We don't expect more impact from Usend given that these abrupt offering will be transactional. No credit involved going forward. And then on the capital base remaining 35% of CT1. We think this is a cushion we have with several times a lot of the average of the market due to growing for several years. I'll pass on to Helena.

Helena Caldeira:

Hi, Yuri. Well, regarding operational leverage and profitability we actually we see that this is the trend going forward. We understand that we are in the tipping point in which we have presented a lot of growth over the past years. And we have a lot of room to show operational leverage going forward both on the revenue side and on the expense side.

On the revenue side, we will continue to see ARPAC increasing as the customer base matures. We see that older cohorts of clients have a higher average revenue per user, which will become higher on leverage as we add less customers compared to the total customer base. What we also have on the revenue side is the increase of market share and scale in the products that we have right over the past years, we have been launching many new products and initiated many new verticals and such as Inter Shop, for instance, that we answered on in the previous question. But what we see that the majority of the products also help to drive revenues up.

When it comes to the expenses, there is operational leverage coming from basically everywhere. If we think about like personal expenses, for instance, last year we grew a lot. We basically doubled the employee base. And this year will be a marginal growth since we have already built the infrastructure to keep rolling forward. We don't have an actual guidance like to give to the market right now for the second half of the year for next year. But what we can say is that operational leverage will start getting more significant going forward. And this is what we expect.

Santiago Stel:

And the complement to points on this on the ARPAC. If you compare it to monthly and I said it's US$6 per month per client and net interest expense analysis shows us this more than double time and half of our clientele enter the platform in the past 12 to 15 months.

So, the natural evolution of that clientele is becoming more profitable alone and that impact on revenues. And the second point is the acceleration of our product adoption. Before it took us ten quarters to reach 3.5 products per clients and now it takes us two quarters. So, this is an acceleration on the ARPAC expansion in the new book.

Yuri Fernandes:

Thank you, Helena, and Santiago. Santiago, just to follow up briefly here on capital there is a asking about cash out the debt rates.

Helena Caldeira:

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

Yuri Fernandes:

Super clear, Helena. Thank you very much.

Tito Labarda:

Hi. Good morning. Thanks for taking my questions. Also, a couple questions. One, if you can give some guidance in terms of what you expect for loan growth, particularly in the different segments. You've highlighted you have a relatively collateralized loan portfolio.

Are those the segments that you think will grow faster? How do you think about the ones collateralized? An outlook in terms of growth, particularly with that quality deterioration. And then second question, you're following up a bit more on the profitability question that the UBS and Santiago mentioned is dollarized and converted to one of these around US$6.

Any color where is some of your more mature clients in terms of that that ARPAC or what you know, what they're generating today in a more mature client base are fine base?

And also, any guidance or target for where your return on equity can eventually get to, you know, once in a kind of a sustainable level of profitability it and how long do you think it could take to get there? You know, it could be some time away, but just to get how you think about that return on equity in a on a longer-term basis. Thank you.

João Vitor Menin:

So, Tito, João Vitor speaking. Thank you for the question. I'm going to start from the last one about the ROE. As Helena mentioned we're not giving the guidance to ROE. And actually, it's hard for us to predict that there are always going to be X points within three quarter, first quarter or whatever. But what I like to think for us is that by having a good balance between NII and fee income, that's the first thing to improve our ROEs.

So going forward with the revenues broken on both sides, we don't need to have a big equity to sustain our revenue base of growth. So this is very important. Also, as Santiago mentioned, we see dilution on cost to serve mainly because of the dilution of the personal expenses, mainly because I would say that all of the products that we are offering in that we want to offer to the clients, there they are.

We already put 1200 plus IT guys to develop, to implement, and to deploy as I mentioned, the best Super App on the west world. It's there, there are clients are kicking in. They are coming. It's a very good CAC. So, it's a matter of time for the profitability to improve. So, this is one thing about our roads.

Your first question regarding the growth on the credit portfolio, as Santiago showed in these lights of the credit portfolio, we have to think about expanded credit portfolio six to five of these are collateralized. And if you think about without putting the transaction of the credit card, we have up to 95% collateralized. This was always a mindset for ourselves, for myself, I would say, for our board of directors to have a credit portfolio very well balanced.

We don't want to be a mono liner, a dual liner. We want to have five, six, whatever at different verticals and with that sets. We do have a very small penetration among these products. Mostly on the collateralized one payroll and mortgage. So, we foresee that will keep growing around 50% for 2022. We should slow down from 2021 for obvious reasons, but we have room to keep growing on a 50% basis. Maybe next year we can do even more than that we have 61 with equity. Is what we have good funding we have all the products and most of the profits are collateralized.
So, we're comfortable by growing our credit portfolio on a 50% base this year, and maybe more than that for 2023 depending on the macro-outcome. So that's about the growth on the credit portfolio and Santiago is going to cover your second question was about the ARPAC.

Santiago Stel:

Good morning. Thank you for the question. So, on our back expansion, a few topics one year the US$6 per month that's on a net basis. I'd like to reiterate that deduct the interest expense we see in the mature cohort is that more than doubles to 2.5.

And we'll add more color, as I mentioned in my initial remarks and for the next earnings call and the cohort analysis and the expansion of that and our forecast blue with us gaining market share. So that counts for that we added on page seven, facilitates the analysis, the valuation of our market share and core products.

And we see that we have already been gaining significant traction on several products and now it's a matter of continuing that trend and sustaining a decent asset quality which we intend to see us to join dimensions on our mix diversified, makes our loan portfolio be defensible or better in the context of increasing NPLs and we that our plans should continue to trend higher as we add percentage wise, less clients than the ones that hit on the bust.

Tito Labarda:

Great thing I thank you João Vitor and Santiago. That's helpful. Just one follow up on the loan growth you mentioned on 50% and I assume this one is collateralized. How about that sort of like on the unsecured? Just curious how you think about growing that portfolio and should that or less than that 50%? Any color on it?

João Vito Menin:

So, Tito, João Vitor speaking again. Yes, look at for the previous year we expanded more on the unsecured on the credit cards, so we gain more market share on credit cards. From now on, actually from the end of 2021, we decelerated the growth for credit card portfolio mostly at the time of the concession at the time of the on board of the claim.

So, we're trying to share, pick more clients for credit card underwriting clients that are with us for a longer period of time. That's what we would be doing for the credit cards. Having said that, we believe that credit cards winnable accordingly to the other types of credit mortgage, payroll, SMEs, and the agro-business.

And therefore, we think that the break down I would say by the end of the year or maybe 1Q22 is going to look pretty much the same as we have today the fragmentation of the credit portfolio.

So, we don't see any of these five different verticals gaining more market share in a fast on spots. I believe that all of them are going to grow pretty much at the same annual. And we want to keep this good balance between the five of them.

So that's the, the outlook, the outcome for the next two, three or four quarters, or even more. Maybe one or two years ahead. We are going to see pretty much the same breakdown between the credit portfolios.

Tito Labarda:

Ok, great. Thank you very much, João Vitor.

Neha Agarwala, HSBC:

Thank you so much for the opportunity for asking question and congratulations on the results. I wanted to talk a bit more about credit cards. There has been a slowdown in terms of loan growth for credit cards and SMEs during this quarter, so how do you see that loan growth going forward?

And could you please clarify the 50% loan growth that you mentioned? Is that for the book as a whole for this year. Or is that for just the secured lending segment?

And in terms of credit cards, even in terms of the number of credit cards, used during the quarter and the TPV even that was quite weak sequentially despite the seasonality. And that also had an impact on the fee income that led to modest fee income growth, in my view. So, could you shed some light on that as to what is your strategy in that regard and what should we expect in the coming quarters? And then I asked my next question.

Santiago Stel:

So, thank you for the question. On cards, as I mentioned, a when I was going through the growth by broad, we intentionally decelerated our growth of cards during the quarter that was in line with the average of our entire loan growth. And that was intentional to recalibrate them and strengthen underwriting models these quarter in the context of increasing delinquency.

We are doing great to new clients by a much smaller percentage. They were even before our prioritizing credit cards on their existing clients. And that naturally had an impact on fees. And back to the point on the growth and related questions before, we expect and like last year where the growth and cards was significantly higher than the average number, we had a much more balanced growth among different products for this quarter trying to maintain asset quality within acceptable levels for us.

So, the goal and strength that we see in our loan portfolio, as João mentioned, is the diversification and the resiliency and for that to be playing out particular scenario of increasing delinquencies as we have this year, we don't intend to grow the portfolio out on faster base than the average of our loan. We do want to help gain market share. So, we'll grow at a higher rate than the average of the market, of course products. But that growth will be more balanced across each other products.

Neha Agarwala:

And 50% mortgages for the entire loan book?

Santiago Stel:

Yes. It's for the entire long look.

Neha Agarwala:

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

Alexandre Riccio:

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

Neha Agarwala:

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

Santiago Stell:

Yes. So, in the international business, the Usend transaction closed this January. And from January onwards, it's part of the Inter ecosystem. And the core of the business is remittances of Brazilians that live in the US and send money from the U.S. into Brazil.

This is a high revenue product, with a high currency on average is sent funds to Brazil twice per month, one to build an entire ecosystem of transactional products into the US, which is something we can do with a very low marginal additional cost which would be absorbed by the US entity.

And we intend to migrate our app into the US and have a single app. And Usend app and the Inter app will have a single app in the coming weeks, which will make it seamless for people to operate as they go from one country to the other. The revenue just since in 2021 of using West Coast to US$60 million, this is a growth that a revenue stream that goes up close to 100% year over year. So, we have compounding basis you will become significant, but yet it's starting off a lower base. We don't intend to give credit in the short term, it's a transactional and value proposition that we want to have and that we fully integrate into the entire ecosystem

Neha Agarwala:

Okay, Perfect. That's why any targets that you have in mind for your international operations? we'll see how that goes.

João Vitor Menin:

Neha, João Vitor speaking. we don't see any targets. We don't see the need of MNA over there. As I mentioned before, the Usend initiative is important because we have all the license to run the business, the day-to-day business in the 45 plus states in the US, we're going to replicate most of the products that we have in Brazil.

The transaction products on that app as well on the single app. So, I mean, we don't need to MNA in order to provide a good value proposition for the immigrants living in the U.S. So that's not on the table right now.

Neha Agarwala:

Thank you so much, João.

Otávio Tanganelli, Bradesco BBI

Hi, guys. Good morning. Thanks, or taking my question. Just a real quick one on my end. There was a sizable reduction on the interest revenue side, notably on the corporate segment. I wanted to get a little bit of color on that.

On the sequential basis, I saw in our spreadsheet that you reported something around R$105 million in the fourth quarter, which declined to R$86 million in the first quarter. I want to get the rationale behind that, especially because we're still on a scenario of rising interest rates, so there was something puzzling to me. Thank you.

Alexandre Riccio:

Hi, Otávio, thank you for the question. Alexandre speaking. So, the SME portfolio for us has a lot of seasonality, so very short-term portfolio and it typically has a fourth quarter that's very strong even by all the activity that we see in the country in the last quarters. And it's really seasonal. So, the good part of it is that it enables us to reprice the portfolio very fast.

So, as we're navigating these environment of heaving Selic highs on every global meeting. Having this quick turn over of the portfolio allows us to reprice it. And we should be we should have a recovery in the upcoming months. Thank you.

Otávio Tanganelli:

Thank you. Alexandre.

Thiago Batista:

Hi, guys. I have one question about the agreement between Inter and Mastercard. If I'm not wrong, you guys recently renewed this agreement. Can you elaborate a little bit on this agreement and how we should see the impact of this agreement on the PNL of Inter?

João Vitor Menin:

Thiago, hi. João Vitor here. First of all, I'm very proud to be a partner from Mastercard since 2015, 2016. They were the first one to, I would say, to accept Intermedium at the time we had a business plan to have a 100 thousand clients by 2020 and they accepted us on their platform we start being MasterCard issue, and since then we have the room much more than ourselves. Inter and MasterCard expected.

And therefore, we have been doing every 24 months, 18 months we have been renewing our agreement with them. We just did that in January, and you're going to see most of the impact. It's going to be a good back a way better deal than the one who signed in a 2019, something around that. It's going to be a way better deal for us and you're going to see that on the savings we want to reduce the savings that we have with MasterCard.

This is a better way for us to put that we run instead of just getting rewards from MasterCard which will cost us that is interesting. So, you'll see mostly through there reducing the cost due to be an issue for MasterCard for our 20 million plus clients. That's how we're going to see and again very proud to partner with Mastercard since the beginning of our retail banking business.

Thiago Batista:

Very clear thanks.

Flávio Yoshida, Bank of America:

Hi. Good morning, everyone. Thanks for the opportunity to ask questions. So my question is regarding client ads. So client ads was consistently trending up last year until the 4Q when you guys added almost 3 million clients in the 1Q, it decreased to 2.3 million clients. And I was wondering what should we expect for client ads going forward? Was there any seasonality? The 4Q should be, you know, the 2 million client ads, more recurring level.

João Vitor Menin:

So, Flávio, João Vitor here. Actually, and maybe there is some miscommunication here. We didn't have a worst quarter 1Q then 4Q2021. Probably is related to the Usend clients that we put as a total client. But when you think of our pace of onboarding new clients in Brazil, every single month, every single day, we had the best year ever.

And not only that. We have the best not in a good time for ads and clients with the holidays, carnival and everything. So, I believe that as I mentioned before, it's we see the competition slowing down if most if not that frenzy as it used to be, maybe six, 12 months ago, a lot disruptive trying to just bring more clients at any cost.

We see things slowing down. So, we're very confident that will keep growing our business. I would say getting growth quarter over quarter. Of course, it's we're not going to grow on the same compound base because it's possible, but you'll see growth quarter over quarter. But I would say a better quality of growth, lower CAC, maybe better clients and more engagement among these new clients. So that's the trend. We're very comfortable on the level, and the kind of clients that we're bringing to the platform. So that's the outcome for the rest of the year for sure.

Flávio Yoshida:

Okay, great. Thanks

Operator:

Thanks for the question, Flávio, and this concludes our question-and-answer session. I would like to run the conference back over to Mr. João Vitor Menin for his closing remarks.

João Vitor Menin:

So, thank you, everyone. Thank you to the audience for being with us again. Thank you to my colleagues here, Alexandre, Santiago, Helena. Thank you for the 4000 plus employees at Inter that are working hard every single day to put this us ahead of the competition. As I mentioned too, for us to be able to launch this this amazing Company, the best Super App on the west world.

And I'm very proud of that. I mean, it's something amazing. And we're very committed to the business doing our best. And I believe that we will get there. we'll get on the profitability at some times our shareholders ask. We will get on the growth.

So, very excited not with the quarters, but with the years to come. And again, the best is yet to come. We built a big franchise, big platform, the clients are jumping in. We are very excited with what we have ahead for our business, for open. Thank you very much, everyone, and see you within three months. Thank you. Bye.

Operator:

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