

3Q18 Conference Call
Banco Inter
November 1st, 2018

Operator: Good morning, thank you for waiting. Welcome to the Banco Inter conference call where the results of the third quarter 2018 will be presented.

Today we have with us our CEO, Mr. **João Vitor Menin**, our Vice-President, Mr. **Alexandre Riccio de Oliveira**, and the Head of IR, **Helena Caldeira**.

We would like to inform you that this event is being recorded and all participants are connected only as listeners during the Banco Inter presentation. Later, we will start a Q&A session, for which instructions will be given. In case any of you require assistance during the call, please request help from the operator by typing *0. This call is also being streamed simultaneously via webcast and can be accessed at ri.bancointer.com.br with the respective presentation slides.

The replay of this event will be available right after the end of the call. We would like to remind you that all webcast participants may submit questions through the website of Banco Inter, which will be answered at the end of the call by the IR Department.

This call will be translated into English simultaneously, so our foreign investors may also attend the call.

Before proceeding, let me mention that any forward statements that may be made during this call about our business prospects, projections, operation targets, financial targets are based on the beliefs and assumptions of Banco Inter management, and also on information currently available to the company. These forward-looking statements are not guarantee of performance and involve risks and uncertainties because they relate to future events, and therefore they depend on circumstances that may or may not occur.

Now, I would like to hand over to Mr. Menin, our CEO, who will start the presentation. So, Mr. Menin, you have the floor.

Mr. Menin: Good morning everyone, thank you for attending. This is our third earnings release since our IPO, I have some comments to make, and then we move on to the financial part with Alexandre, and then the Q&A session.

So, I would like to start by saying that we are really happy with the earnings and results of our third quarter and also of our 9 first months of 2018.

So, what are we so happy at the bank, with our investors, customers? Why is everyone living this good moment? Well, I'd like to share with you some of our achievements in our first 9 months and also the third quarter, which is of course good for our good results.

First of all, we will probably finish 2018 with over 1 million of account or checking account holders, so we are about to finish the year with 1.5 million digital account holders, and this is important for our business model. Now, the second point which happened in the first quarter was the migration of all of our data into the cloud; the first Brazilian bank to do this. So, this was a reason for us to be really proud, we worked

really hard and achieved this feat.

And then we reformulated our entire IT system with a new banking core with a micro service layer to make this connection with the cloud so that we can be the most agile bank in showing products and reformulating our services.

After these 2 tasks, we completed our IPO, the third IPO of 2018, a very successful IPO. Post-IPO, all our computer and server park was migrated to Apple, so we now run Apple 100% iOS, which is, of course, more reliable to our employees, the largest migration process of the company moving from Windows to Apple, and our partner IBM has helped us in this effort.

With regards to new products, in these 9 months we launched foreign exchange, consortium, savings, salary portability, and also, very importantly, we now have a full broker. So, with DTVM we are now a participant in business, and this allows us to launch this December/mid-December new products. We are also starting December by testing the first card issued by our bank that are being processed in our own processor, or *intraprocessador*, which will make them even more reliable and dynamic and more stable.

In addition, in the first 9 months we launched 23 new versions of our app, and that means over 2 new updates every month, and all these tests and achievements were made, and in addition, we delivered this and return over R\$430 million in banking fees to our account holders, so we returned these funds and we delivered the past quarter at Banco Inter's history.

This is why we feel that we've done our job well. We have many challenges ahead, of course, but these 9 months, first 9 months, were really very constructive, adding a lot of value to our bank.

Before moving on to the financial figures, which our CFO will discuss, I'd also like to comment that this quarter is a proof that our business model is successful. We showed our timeline before with the creation of value for our digital customers, our business model is a model of a virtuous circle, and our first 9 months have been proof of this; our business model is being 100% digital, 100% free of charge and then delivering our customers a complete bank, including insurance, investment, consortium, credit and foreign exchange. This model has been working really well.

We have lived this virtuous cycle with more account holders, with happier account holders with our complete free-of-charge model and they recommend our services to other people. Word-of-mouth, for instance, has been working really well, and we've been having increasingly more customers, also at a faster pace. So, our customers come to our platform and they start using our services.

So, our service revenue has been growing, has a share of a total revenue about 20%, we have, of course, cheaper funding, we don't need a long-term deposit platform, so we also do our direct deposits, and we have 83% of the CDI and we think that we can reach 80% or less in this virtual cycle.

Our customers now live in the Banco Inter environment, and to add to this, we have 8% of all the portability since July 3, when we launched the automatic portability, and 45% of our customers they use Banco Inter as their primary bank, their day-to-day bank.

Finally, at the end of these first 9 months of 18, we have our cross-selling index, CSI, and that was 2.75. In other words, the active Banco Inter account holders consumed

2.75 products on average, generating revenue for the bank. To have this virtuous cycle, this retail bank that is innovative and digital has been working really well, gaining scale and, of course, growing. So, growth good, profitability, monetization of our customers, these have all been very positive, and this has led us to celebrate the earnings of the third quarter.

Thank you again everyone for coming, and now I turn over to Alexandre, then we will have our Q&A session if you have any questions just ask.

Mr. Alexandre de Oliveira: Good morning everyone. I'd also like to thank you for attending our third earnings release call.

Okay, I will discuss operating figures and then financial figures. I believe that the major figure we want to share João Vitor has already mentioned, we have 1,050,000 customers at the end of Q318 and the cost of acquisition [unintelligible] R\$18.81 at the end of Q3 with a very important landmark, and this is the maintenance of 0.5 new customers per business day, so this is the third consecutive quarter in which we grow 0.5% daily, which is a very good number for us.

Now, why are we bringing in all these customers, why is this our greatest driver? Well, we want to generate a good long-term relationship with them. In the last call, and now João Vitor also mentioned, our cash flow, or customer cash flow, in which we measure our customers lifetime value, we offer a whole range of products and services, so we can make the bank more profitable, with a good value proposition to our customers.

So, I would like to give you a color of how this has been going on. So, in terms of customer engagement and value generation, in 3Q we had 31 million access to our internet banking app, and this is about 1 access per business day per active customer; very positive engagement rate, which is very good showing the consumption level of our services.

For the first time we have a chart of monthly active users, showing again engagement of our customers, and we already answered in other calls and conversations with investors, explained that our major challenge is not churn, but rather to keep our customers active, so this MAU monthly active users shows this. So, on every layer we have a new number of clients, customers and their churn is rather good, and also the new customers is really good; we have 65% is the standard of activation, our mantra is that we want customers that generate revenue every month, and types of revenues that are listed on our lifetime value and cash flow.

Now, this growth in the number of customers has been translated into results, especially the service fees, funding and credit.

In terms of service fees, we have 18.6% of our fee income ratio, R\$64 million in the first 9 months, and this revenue was rather diversified, that's another important point, 12.8 million, and change... insurance 3.4 million in our investment, and this shows why it is important to be diversified. We know that this will engage our customers, in the long run they will be consuming product as their relationship with us evolves.

As for funding, we have 83.8% in cost of funding, so the cost reduction has been on and this is really positive, with good increase in our floating and also in our directive posits, we have 85% of our bank funding in retail or direct customers reducing our dependence on institutional investors and also distributors when we consider our distributed balance through our distributors, and have 85,000 depositors, which is an important landmark, and a fine potential, also clients, to broker and other types of

services that we offer.

As for credits, we also had very good numbers in the first 9 months, 3.05 billion in credit portfolio, loan portfolio growth of 23.5% in the last 12 months, 30% of growth in our real estate credit portfolio, and 100% is [unintelligible], our net financial margin 9.7% and the reduction of funding costs and also good spreads, origination spreads. So, the quality of our portfolio still has been improving, 5.8% of NPL last year, now 4.2 at the end of this quarter, but a coverage ratio relatively stable and BTB expenses 0.6% of loan portfolio.

Moving onto profitability, we closed the quarter with 19.8 million as compared to 10.4 in the year-over-year, 47,500 million, that's our 2017 result in the first 9 months already, so we achieved a similar result to 2017. Our ROE 29% with a slight increase in efficiency ratio, 64.1%, increasing from 62.9 as a result of investing in people, in growth, developing our platform, and it should be pointed out that although this increase happened, it can be understood considering everything João Vitor mentioned about our achievements.

The bank has delivered a lot in our business model, delivering a record result and efficiency ratio that's slightly higher now, and this is part of this phase of the bank, of the evolution of our business model.

And finally, our Basel rate is 31%, so the bank is ready to keep running its business model with our loan portfolio and the monetization of our customer base.

I will now turn it over to Helena, who has also important information to discuss with you.

Ms. Helena Caldeira: Good morning everyone, thank you very much for attending our conference call.

Well, last messages. First, our share performance has more than doubled since the IPO, and this is because of the composition of our stock pace with over 12,000 individuals against the 3,000 that we had at the IPO, and the financial volume of daily deals is over 20 million in the last quarter.

Finally, I'd like to remind you that next Tuesday we will have our first annual meeting here in Belo Horizonte, everyone is invited to attend, our engagement with individuals is very important to us in addition to institutional investors. We are recognized as a retail bank and this is good for Brazilians, so everyone is invited to go to our IR or investor relations website.

I think this is the end of our initial comments. And we cannot open the floor for our Q&A session.

Question-and-Answer Session

Operator: Ladies and gentlemen, we will now start our Q&A session. In order to ask a question, please press star 1. To take your question off the list press star 2.

Our first question is from Jorg Friedman, Citibank.

Mr. Friedman: Good morning everyone. Thank you for the opportunity of taking my question. I have 2 questions. The first is about expenses, what I missed was more detail explanations about the reasons that led to the growth of your expenses this quarter. I know that you are growing fast, but if possible, I'd like to have more details

about the major costs that have impacted or led to so much administrative expenses, and also expenses on personnel.

My second question, well, when I look at your figures, I see that you've been growing really at a very fast pace in your credit card portfolio, this is part of your business model, of course, you've been really growing fast, the number of customers has been increasing considerably.

Now, my question: I wonder if you're not concerned about your coverage rate from now on. I mean, this portfolio will start to be increasingly more relevant, so by looking at the release figures, we don't know about the coverage details of this portfolio, so as this total portfolio coverage rate is 65.9%, so it like you to clarify a bit more on how you see this evolution.

These are the 2 major points that I'd like to have comments from you in terms of profitability and business control. So, expenses, when you consider your revenue growing, how it relates with your costs or compares with your costs and how you control the risk of this business model that will invariably go toward riskier lives as customers use their credit limits on their credit cards. Thank you.

Mr. Menin: Well, this is João Vitor. Okay, thank you for your question. Let's discuss first the expenses. Let's resume what I said at the beginning, our efficiency rate has increased not because of our revenue decreases, but because of our efficiency rate, which increased a little because of higher expenses more than a drop in our revenues.

Our expenses have increased, if we compare them year-over-year, our expenses increased 67% and our revenues 63%, so it is not such a mismatch, it is just a small gap 67 to 63.

So, it is like 62 and 64. So, how do we see this this for us? This is okay, and even positive. This increase of 2 points in our efficiency rate and all the deliveries, everything we did, the number of account holders, migration to the cloud, the IPO, migration to the Apple platform, 6 new products, a full broker, so we believe that this is not a problem at all; we don't think there is a mismatch between our revenue growth and our expenses increase. When you grow, you spent more money, of course. We're not giving you all the details of our administrative expenses, we can give you this later, it is not a secret.

But, anyway, as for the credit cards that you asked, well, are not opening it because it's a portfolio that is still rather small, as you mentioned, and it will become relevant and we will maybe open it more in the next quarter or the other quarter when it becomes more relevant, because today it accounts for about 2% of our loan portfolio, so its weight and coverage rate is very small.

Do you have any other questions Jorg?

Mr. Friedman: No, these are the major points really. So, I'd like to understand a little bit better, I see that you are not that concerned about the evolution of your expenses. You have more customers than expect and the revenue is also higher than expected, so my concern is about profitability, how do you see your profitability? Where is it heading? What can you tell us in terms of your internal estimates this year, next year? Maybe you could give us a color about this. I think this would be really useful for our modeling purposes.

Mr. Menin: Well, in terms of our profitability, this is ROI and ROE, this year we are expecting to close the year with a ROI average of 10%, I think we can have like a 2-

digit number, and then what's interesting about this is that even with a little more administrative expenses, well, this is because we are building or, as we say, probably in the first quarter 19 it will be among the top-10 retail banks in Brazil, and this is highly significant.

And in addition to this, we, in our view, our revenue service or our service fee revenue related to the number of customers that has been growing fast, this revenue has also been growing fast, aligned with our account holders' growth. So, as the revenue increases, we had 6% in 16, 12% in 17, and this year, 20-22% that's what we expecting to reach our profitability, our ROI even with the efficiency rate being a bit higher, and when I mean higher it's all about your references, when you consider some other Brazilian banks, when it's like similar to 50, we are a little higher, but we want to offset this, these expenses for the building of our retail bank by increasing our service fees or service fee revenues that do not require capital, and we think that this way we can improve our profitability.

Mr. Friedman: Okay, thank you João.

Mr. Menin: Thank you.

Operator: The next question comes from Alan Nicolau, Bradesco. You may proceed.

Mr. Nicolau: Good morning everyone. Can you hear me?

Mr. Menin: Yes, we can hear you.

Mr. Nicolau: Thank you for taking my question. I also have 2 questions. First of all, I'd like to understand your savings product. You just launched it, it's been highly... It has a lot of appeal. Now, what is your product strategy like? Because this seems like my first investment option. So, I'd like to see if you really want to focus more on your savings products and less on the other lines.

And if you want to grow in savings, then how about the real estate loans, maybe use of TR. And then there are other expenses, for example, card withdrawals? So, how do you see this other line from now on when you have many customers withdrawing a lot of money and generating expenses?

Mr. Menin: João Vitor again, thank you. Savings, how do we see it? This is a strategic project for us. Why? Many reasons. Banco Inter is a retail bank and a mass bank, it's not a premium product bank, so savings although investment experts criticize savings, for small investors it's a very good product, with good rates, it's easy to withdraw and to redeem, they have about 100 billion in Brazil.

So, our goal is to increase our savings product. And why? Like you mentioned, no other Brazilian bank (maybe Caixa, well Caixa does this, but), no other Brazilian bank has such a high weight in real estate credit as Banco Inter. So, when we have a savings platform that is recent and has a high adherence level, we can start SBPE, but being highly competitive.

So, today with 1 million clients and a future 1.5 or even more, if they want to have a real estate credit or loans, it will be highly competitive, more than other Brazilian banks because of our products, and before we had our savings products or savings accounts, we only had real estate loans funded by LCIs.

But I think we really have a product mix, not only the market real estate loans, it's good

when savings accounts are less competitive, but we always say that we need is like a flex-fuel hybrid car: with gas and ethanol, so we also have this in our products. And this strategy of having a savings account product, it will be very easy to allocate them. I think that we have to encourage people to use them because SBPE is a very good product, and we are really excited about this.

As for credit card withdrawal expenses, we have very good news about this: our major expenses in our platforms are withdrawals. Why? As we have an innovative model with 0 tax fees, we returned R\$400 million to our account holders, we've subsidized 100% of withdrawals, ATM withdrawals, or 24 banking withdrawals. So, this is one trend of gaining in scales. So, for every X thousand withdrawals a month, we have a cost of Y. Now, when you increase this... Can you hear me?

Mr. Nicolau: Yes, I can hear you.

Mr. Menin: So, when we increase the number of withdrawals exponentially (and this is what's going on with our bank), then the cost it falls dramatically. So, we will see that the individual cost of withdrawals when we change this range or move on, it won't fall nominally, but it has a percentage, and significantly.

Now, a second point: when we say we are 100% digital, our greater enemy is of course money, cash, because people when they withdrawal and also pay bank bills, so we see people using debit and money transfers more, so the use of withdrawals or cash withdrawals has been decreasing from now on.

So, the outlook for greater expenses is positive in this respect, and we are rather comfortable about this.

Mr. Nicolau: Wonderful João Vitor, thank you very much for clarifying this point.

Operator: The next question comes from Carlos Daltozo, Banco do Brasil. You may proceed.

Mr. Daltozo: Good morning everyone. Congratulations on your great results. Now, one question: You mentioned exchange salary portability, foreign exchange, you also mentioned about stability. Now, is there any point that is less than what you expected or planned? Is there any point that is not developing as you expected?

Mr. Menin: Let me make sure I understood your question, it was kind of... the volume was rather low. So, you want to know a point didn't develop as expected?

Okay, this is João Vitor again. Well, Daltozo, yes, there is one point: everything is doing fine, savings, insurance, consortium, now the only product that hasn't evolved as expected is our interbank system. And what do I mean by that? We were expecting it to grow exponentially, like everything else in Banco Inter, but it was semi-exponential if you will.

Interpag is our payment method, and this also disrupts our payment industry, getting rid of intermediaries, and this strong cultural pressure, especially with our payment terminals and then cashback instability. So, this is a product that, in our opinion, hasn't really developed as expected or planned.

But I think we had more positive surprises overall then... I mean, we exceeded our expectations in many respects, and this is the ugly duckling, the only ugly duckling of our products.

Mr. Daltozo: Now, my second question is about your corporate account performance level. So, what are your corporate account... how has it been developing?

Mr. Menin: Well, what I usually say is that we've achieved a lot, many projects at once, but then you have to make a choice and we chose to use our app for individuals more than businesses, and our digital pro-app doesn't have the same level in terms of opening accounts or stability, so we will release a new version of our corporate accounts, so this will make it easier for them to open accounts, and we believe we can speed up the number of new city-pro or business account holders.

So, the percentage of people online for the opening and business accounts is much higher than accounts for individuals, which is a state-of-the-art.

But we will get there. We needed to put up many things at the same time and I think that we can improve on this very soon.

Mr. Daltozo: Okay, great. Thank you and congratulations again.

Operator: Ladies and gentlemen, I'd like to remind you that in order to ask a question, just press star 1. In order to take your questions off the list, please press star 2.

So, this is the end of our Q&A session. I'd like to turn it over to Mr. Menin for his final remarks. You may begin Mr. Menin.

Mr. Menin: Well, thank you again everyone for attending, we are respecting the time that was allotted for this call, but some of the questions that we got by e-mail that we are not answering now, will be answered by our Investor Relations Department, which will then forward the answers to you.

So, thank you again for asking your questions through the Internet. Our IR Department will answer you. Have a good day, thank you.

Operator: The Banco Inter conference call is now adjourned. Thank you for your participation and have a good day. Thank you for using Chorus Call.