

2Q19 Conference Call
Banco Inter
August 13th, 2019

Operator: Good morning and thank you for waiting. Welcome to Banco Inter's conference call to discuss the earnings of the first quarter of 2019.

We have today our CEO, **João Vitor Menin**, Vice-President, Mr. **Alexandre Riccio de Oliveira**, and Investor Relation Head, **Ms. Helena Caldeira**.

All participants are just listening, and this is being just recorded. In the end, participants will participate in the Q&A session, with further instructions being provided. If you need any assistance during the conference call, please request assistance of an operator by pressing star 0.

This is also being recorded and a webcast mode can be accessed in ri.bancointer.com.br. This will be available after the call is ended. Participants into webcast can also record or send questions to Banco Inter, which will be answered by our Investors Relation department.

We would like to inform that this conference call is being translated into English dedicated for our foreign investors.

Before we continue, we'd like to clarify that any statements that may be made during this conference call relative to business outlooks of Banco Inter projections, operating and financial targets are just based on the premises of the company's management, based on the information that's currently available to the bank. Forward-looking statements do not ensure performance because risks and uncertainties may be involved, and they depend on circumstances that may occur.

Now I'd like to give the floor to Mr. Menin, who will start the presentation. João Vitor Menin.

Mr. João Vitor Menin: Good morning everyone. First of all, thank you very much for participating in another conference call earnings release. This is a very special earnings release call like the first after our IPO, this is our first earnings call after our follow-on offering, a highly successful operation. We'll talk about that later.

Well, I believe, and I'll start our earnings release call, by thanking deeply all our employees, over 1.300 and also our investors, we have almost 90millinvestors and specially our customers. These people were responsible for making this semester or even this quarter to be really special, in fact outstanding, with great results, very promising results that will help us continue our banking revolution.

Some of the highlights of our quarter include - in the first half of 2019 as well - and these include growth over 1.1 million of new account holders. We made our deal with Wiz

Seguros, a very interesting deal, to launch the first digital insurance service in Brazil. We're really excited about the perspectives, the outlook.

We've also completed, as I said before, our follow-on offering - highly successful, by the way - and finally, last but not least, we have our greatest quarter profit of the bank in the last 25 years.

I'd like to highlight that although we had positive results, we know there is a lot of room for improvement, in other words, that we are really strong in our path of making a revolution in the financial industry in Brazil. We have our first digital free account in Brazil, we already done this investment in our opened investment platform (PAI), it's already on our app. We were the first to launch our fund cashback, and also a 100% digital and free home broker services, and we are doing the same now with insurance. We are making a revolution in the insurance sector. So we now have digital insurance services and partnership with Wiz.

And also in credit, and it is easy to understand, understand our revolution loans, we have extremely low rates or fees in Brazil for many different products, like payroll loans, credit cards, we also have a payroll on operation, a very large portfolio in Brazil that's 100% digital, without intermediaries and paperless.

But we want to do more. We know that this revolution is, of course, very positive and very important for all Brazilians, but we also believe that we can do more in terms of services, non-financial services. And this has been encouraging us to launch our Super App, our Super App will be an increasingly better experience for our customers, in addition to anything else that they can do. They may also consume services and products from our app, and this Super App will also provide people the possibility of getting money in their current or checking accounts with the operations and transactions they do through our app, so we have this cashback possibility.

And then, by the end of the year/beginning of the next year, we'll also be launching our acquisition product, especially for smaller merchants, not talking about the large retailers in Brazil. And this will be without the card device. So this device will now be inside, built-in in their cell phones, so any small merchant will profit from this, will be benefitted by this. And we'll get rid of hardware chip or other chips, so we can lower the transaction cost with credit cards.

In our report, as we did before, we've always tried to add some elements of image that helps explain our model. Banco Inter's model is very disruptive, very different for analysts and investors to better understand our business we've being doing this.

So we had our cashflow showing our clients now, in this release, we have something new, that's our formula and image that summarizes our corporate algorithm, our business algorithm. In other words, how we want to generate value or income to our shareholders, not necessarily earnings in the short run, we want to generate value, and that's very different.

I'll explain that latter. That algorithm combines growth, service growth, a wider penetration of our services and also growth of NII, or credit or loan revenue. We've been growing at this speed and delivering very positive results because we have credit loan, that's what we know how to do. Our credit loan book lets us grow fast, like tech companies. We say that this is our "cash cow", this is our support, our foundation.

So in summary, these are our next deliveries. This is what we delivered in the first half of the year, so I'll turn it over to Alexandre, who will discuss the figures, financial figures, and then Helena will talk about our share performance and the volume in transactions, and then I'll go back to close the call and then we move on to the Q&A.

Mr. Alexandre Oliveira: Good morning everyone, thank you for participating in our sixth earning conference call.

So, as João Vitor said, I'd like to discuss our results, our earnings, with this new equation for generating value. Well, this equation, we broke down our business in some areas, some aspects, as we can see in the report, we have "A". "A" is our major driver, and this is our client our customer base growth, which is being executed with a low customer acquisition cost and consistent or sustainable growth in the mid and long run. I'll discuss these numbers later on.

Then we have "B1". "B1" shows the result of this increased customer base, showing service growth with a higher volume of sales, not only with higher penetration, but also addition of new products, and we've been delivering them quarter over quarter products that our customers engaged with and like to consume. That's "B1".

Now "B2". In "B2" we have the goal of growing consistently, having our net profit margin growing based on two pillars: With a lower cost of funding, that's one; and two, a sustainable loan book growth.

And then, point "C". And this is about the combination of our customer base growth. "A" + "B1" fee income, "B2" higher net financial margin, so with the three factors we'll be on a trajectory of generating value in a long run with more ROE and ROA.

Now I'll give you some details of our quarter. Discussing growth, we had 2.54 million clients. This number exceeds in 1 million our pre-IPO expectation. We were expecting to get about 2 million customers at the end of 2019 and we have 2.5 million at the end of July. We opened over 10.000 accounts per business day in June. The cost of acquisition was lower than the first quarter of 2019, so 19,53 as compared to... with an important reduction, and this shows our ability to generate economies of scale.

Customer engaging really positive with more mature growth, 73% activation, and most of the rates show an improvement quarter over quarter in terms of participation, and in some of [unintelligible] we have free products per customer on average, and we keep growing in scale, in an economy of scale.

So globally we had R\$ 210 in the second quarter compared to R\$ 375. And this is just a fraction of the Opex of larger banks. So that's about 10% of the Opex of large banks, and this shows our potential to increase our profitability as we increase the profitability and the penetration of our products within our customer base.

In terms of services and revenue generation, we had deposits of 1.1 billion, so this is a very important number to show the engagement of our clients. We are talking about 1.2 billion people who have been depositing into their accounts, and this is a clear indicator of their engagement. And this value of 1.1 billion is very important also for the reduction of funding cost.

Another important thing is that in revenue and services we have 244,000 investors at the end of June, after the launch of PAI we had 61,000 investors, that's what we left behind, and this is highly symbolic, it shows the result of a good digital experience.

Our customer base grew four times and we delivered a revenue in the second quarter of 19.25 billion larger than our [unintelligible] in the second quarter of 18. 5 billion was our insurance, we almost reached that, but we had also exchanged... interchange of cards 2.5 billion, three times larger than the first quarter of 2018, with 210,000 cards used along the second quarter.

And then our generation of services, we should highlight the high diversification we've been promoting due to our ability as being a complete free digital bank, so we have this high diversification of income.

Now credit and financial margin, we had a lot of evolution in funding cost, we've been 72.2% of the CDI falling, so our funding cost surprises us every quarter. 4 billion in the extended loan book, a growth that did not happen in a specific line. In other words, we grew in all sections, payroll loans, credit cards and so on and so forth.

And although this is not a very high growth rate, we should highlight what João Vitor said in terms of payroll loans, we made an important change in August last year with our bank channel, and people doubted our ability to grow, but we've been able to deliver in this quarter, for example, the best in our history in terms of payroll loans.

Well, having said that, and discussing loan growth, I'd also like to talk about our addressed market. We work in the largest credit or loan segments in Brazil, almost 2 trillion of portfolios to address. We have only 0.2% of this market. About 2-3 years ago, people said this was unfair, we had a high cost funding without a customer base. Now we have all the points of this equation, they've all been addressed, this is why we really believe in our success from now on with this 36% of growth year over year.

And this represents... well, if we had 1% of share in this market we currently operate, which is aligned with our current customer base, we already have a potential of R\$ 17 billion in our portfolio.

In terms of profitability, our results in the quarter was 33 million, 2.1% in ROE, 3.7, so we have 973 billion and the Basel rate 23.6, which shows our ability to consume capital at a consistent rate of 2 p.p. quarter over quarter.

Now I'll turn it over to Helena who will review some more information.

Ms. Helena Caldeira: Good morning everyone, thank you for participating in an additional earnings release call. I'd also like to say that we have our daily volume negotiated on July 19 was higher than R\$ 170 million in the three asset classes and we have over 90.000 shareholders negotiating our shares every day.

We also have our planning to open another conversion window in shares in our program, similar to the previous window, and concentrating liquidity, increasingly more concentrated on our assets, BID11, and we believe that we can now have an index like Bovespa, and this would be good for all our shareholders.

So this was the main message from the management, and we can now open to our Q&A session.

Oh, João will just give you a final remark.

Mr. Menin: Thank you Helena for your explanation and for the support.

Before we move on to our Q&A session, I'd like to summarize a few of these points.

We are usually asked about guidance, but Banco Inter does not give guidance. People say: "What's your growth guidance, what's your profitability guidance?", but then we strongly believe in this company that what we've been doing, this work means having continuous committed to being highly innovated, highly creative, using technology to provide increasingly better and more accessible services to our customers. And this is our guidance. If we can deliver this, this supersedes any economic or financial guidance.

So our guidance is to be extremely ethical and work really hard, committed to keep innovating by means of technology to provide increasingly better and more accessible services to our customers. We believe that we may reach dozens of millions of Brazilians and we're highly motivated, it's a pleasure to be able to achieve this on a daily basis, we say that there are 1.300-1.350 employees that are part and parcel of this journey and of our commitment, and all our employees they have orange blood, which is our color, which... it's really reassuring, we know that we will reach our goals in high quality.

So thank you everyone, we now open 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 remove your question, please press star 2.

The first question, Eduardo Rosman, BTG Pactual.

Mr. Rosman: Good morning everyone. Thank you for your figures, for your offering. I have two questions. First, about your customers, you're getting over 10.000 customers per business day, maybe if you can keep this rate, you'll reach 5 million clients halfway through next year. But we've seen some other players now with even larger number of accounts, but these are payment accounts.

So you have other banks with different or competitive advantages, so have you thought about opening payment accounts considering specific customer profiles? Does that make any sense to you, if you wanted to change from payment accounts or payroll accounts to banking accounts? Can you tell us about the major differences between payroll or payment accounts and banking accounts?

My second question, about Softbank. Have you arranged anything? Will they have access to the Board? How can they add to your company?

Mr. Menin: Well, this is João Vitor. Let's first address the market and growth... market growth. Well, these 10.000 accounts, we are... well, in 3Q, the first weeks of 3Q, this figure has been even larger, even higher and even in our full checking account, as you said.

So, what do I think about this, what have we been discussing about this? I believe that one of the advantages of Banco Inter in terms of monetization and engagement is that we have a full-service account, so to speak. So with PAI, our investment platform, is being highly successful, I don't think we would as successful if we had payment accounts. People are eligible to making investment with brokers, broker company. So payment accounts wouldn't allow them to do this.

We're talking about a 100% digital payroll accounts; you couldn't have loans. So the advantage of having a full-service account is extremely high and it is not an easy task. When people say there's no barriers for entry, well, I disagree, I believe there are many barriers when talking about a full-service account, with all the criterion complying with all the regulation we have to work. We need 300 systems every night, it's highly complex, but then we have lot of advantages like monetization, the use of services, so we believe this is very important.

And I'd also like to stress that as we see, rather than just opening an account just for payment, why not improving that experience and having a checking account? So in the next version of our app, not the Super App in September, but next week novelty will be that will provide easier board experience. So our regulation and our technology allow

this to happen.

I'll give you a simple example, for example, proof of address, it's complicated having easy access to your accounts or bills, for instance to prove your address. So we can work on this and make it easier for people to open bank accounts without the need of this. So this was part one of your question.

As for Softbank, well, yes, we have invited Softbank in our Board meetings. This was something that was arranged together, it's really good to have this integration not only in the C-Level or management level, but also at the Board level.

When people say that we need to recycle our Board with people that are more disruptive and technological, so we have a Board member that represents Softbank, which is the largest technologic player, that's very good for our Board. So it's not only that, but also what I think is very good in our relationship with Softbank is that we are willing to benefit from this smart money. It's not just a simple shareholder, it's a shareholder that has so much technology and is willing to help, and we also see that they not only want to benefit from a higher value in our shares, but also putting up a nice project for the bank and making the bank [unintelligible] for other companies.

So let's say the mind behind this partnership, or the rationale behind this partnership, is really nice. There's a lot to harvest from now on.

I think that's what I... I think I have answered your question, I believe.

Operator: The next question is from Mr. Jorg Friedemann, Citibank.

Mr. Friedemann: Thank you for the opportunity. I also have two questions and then I'll move on to two. One: When you talk about shareholder value rather than in the short run details, I think that now time value of clients should fit in. Can you describe in further detail how you did find this figure and what is the expected value from this metric in the long run? Thank you.

Mr. Menin: Thank you for your question. I'm not sure if you had two questions, but you can ask your second question later. But anyway, lifetime value, as you mentioned, well, in our view, as we have been increasingly more efficient, processes for the financial markets for instance, we generate value.

So when... let's say we have a CAC of R\$ 20,00 for a new customer, that's full-service checking account... customer and we serve this customer at 10% of the cost of a large bank, so this is a process that generates value. I believe it generates a huge added value.

At first it doesn't, of course not. We're investing in a new processor, in our Super App, we have 250.000 customers a month, so that's one thing, but we're also erecting or building a more efficient process generating value. This is what we've been doing.

So when we consider our target with a very low CAC, at 10% of a customer's service and also very high NII and fee income R\$ 600 or R\$ 700 a year, so when consider the cashflow for a period of time, we'll get a lifetime value of 4.000 or 4.500. That's about US\$ 1.000.

So if we keep these monetization metrics with the same CAC, when having additional 250.000 or 300.000 customers, we're generating a lot of value for our shareholders. So we'll be creating a platform of million or dozens of million customers in a few years with these figures, this is very important. Additionally, we can add other products that may even increase further this fee income.

This is not easy, of course. We can show in our income statements, this generation of value cannot be shown, but if we go to the starting point, what's the at the heart of the question? We've been building a better process for retail banking in Brazil and we can now comfortably say that we have built a company of value. This is my answer to your first question. Is there a second question?

Mr. Friedemann: Yes. I'll ask the second question in a minute, but I'd just like to make a comment. How do you reach this NPV? I understood this part about the cost of acquisition and the cost of service, which is lower than the larger banks, and then the addition of new customers in terms of NII and fees, but there are two important factors that may not be considered in this number of 4.000-4.500, and this includes tax.

Mr. Menin: Yes, they're not considered. Provision or tax are not included, we're talking about gross figures.

Mr. Friedemann: All right, that's what I needed to understand, and... fine, fine.

Now my second question. We're talking about short run results. People ask us about this, I need to understand how your minds work. So you've mentioned that net profit beat a record this quarter and the topline is easy to see, it has been growing over 45% year over year, and you're still monetizing customers according to the items you've already shown us.

Now on the other hand, both in terms of expenses they're still growing as you have more customers and then we have 145% increase year over year. So you're operating profit it falls year over year? I'd like to understand this part of our provision.

So we had 1.9% in the second quarter of 2018, now it's 4%, 3.1 in the last quarter because of this demand for riskier products. So I need to understand when and how much, or how much it will destabilized; this quarter? Have you made any other provision or any additional provision? I don't think you've done this, but I just need to understand all the dynamics behind this.

Mr. Menin: OK. Well, what's the dynamics behind our customer portfolio? First, I'd like

to stress that about 12 or 18 months ago, until then, 100% of our portfolio had collaterals like real estate purchases and payroll loans, and SMEs were also collateralized with large companies.

But what have we added more recently that has worsened in a way our provisioning index? And this is credit cards. And this is something we mention in all our conferences with all our investors. We are saying that we will be prudent in terms of the growth of this credit, because it has no collateral, and then you may remember that at first I said that I wanted to make a revolution in credit with lower fees, we have the lowest fees in revolving credit in Brazil.

So we believe that superseding the credit cards provision with 15% a month, that's not sustainable; we prefer to grow less aggressively, and we have new ways of dealing or addressing these provisioning needs. So the first leverage, or the first lever, we have Rogério our CIO, with a completely different and more evolved experience in terms of access to loans and credit cards.

So I think we've changed, we're much better now. And this will be felt in the next quarters, we'll be better at credit card provisioning.

And then we talk about our Super App and our marketplace, as we have a take rate for sales or products that are bought in credit or loan, we will have an interchange that is consistent with the credit risk, like... and we should say that an interchange of 1.2% is not sustainable in Brazil for credit cards.

So what do banks do to strike a balance? They increase the fee for revolving credit. But in our view, it destroys the value of our customers, those who pay, the good customers, they'll be happy. So these two levers are important to decrease default in credit cards, and we will grow as we feel comfortable with the risk we've been taking in our credit card portfolio.

So we believe that we can optimize this with these two levers. That's what we are expecting to do in terms of credit card growth.

Mr. Friedemann: Thank you for your clarifications, João.

Operator: Our next question comes from Rafael Frade, Bradesco.

Mr. Frade: Good morning everyone. I have 2 questions. First, can you explain more about payroll loans since you have 1% origination you've been having relevant, significant growth in terms of origination, but this does not reflect directly in your portfolio. Can you explain this and how this works?

Second, I'd like you to discuss about... well, I think your outlook for individual accounts was very clear, but maybe you could explain or expand on the evolution of corporate accounts. I think you have the intention of launching new products in this area, or if

adjustments need to be made to the account.

Mr. Menin: Okay, thank you for your questions. Well, in terms of payroll, that's a very interesting example, when we talk about generating value not necessarily accounting or economic results payroll loans are a great example as we have banking correspondent. This reduces our underwriting costs and the judicialization as well with much more loyal customers that may consume many other products, this means generating a lot of value.

Now, on the other hand, there is the cost of bringing this person in and the cost of producing 100 million in payroll loans, which we did last month. We'll have this for 7-8 years, that's the average term of payroll loan services, so even if we don't deliver, as this grows with all the intermediary, if we don't deliver profit in the subsequent quarter, we are still generating a lot of value.

So we look at our balance sheet and what we have been quite in terms of expenses for correspondence it's all most 0. It will be like this. We respect the Central Bank's resolutions. We don't have expenses with correspondents, so it's all anticipated.

Now this healthy customer that won't go from place to place and knock on every door that will effectively generate NII for 7 years and consume other products, of course, they will generate value, but not necessarily in the subsequent quarter. This is about payroll loans, but with a portfolio of a lot of added value.

In terms of corporate accounts, well, what have we done? Our strategy has been focusing on individual accounts, that's where we wanted to gain market share. So with our individual account products after the launch of our investment platform (PAI) and now with our insurance services with Wiz and then the super app, well, these customers are really well served, 100% of what any individual can have. So maybe in 6 or 12 months we started considering what else can we do to improve the experience of our corporate customers, and this is something we've been discussing.

So we have a team that is now exclusively dedicated to improving our app for corporate accounts. We believe that our corporate accounts will run in apps. We are not talking about large companies, but a finance department. We focus on small company or corporate accounts and we are trying to improve our app to provide better services. We are also launching new services to them because we have over 400 million of other bank agencies that transfer to the small merchants.

So in the next quarters we believe in changes or improvements in terms of service quality and also service offerings, and this will happen, and we will have more corporate account holders as a result, and this will mean modernization.

So in conclusion, if individual account holders had a hard life of being poorly served and being charged a lot of money, now a small merchant is even in a worse situation, so this new situation or conditions will be better.

Mr. Frade: Thank you, João.

Operator: You should remember that in order to ask questions, please press star one.

Again, if you want to ask a question, please, press start one.

Our next question comes from the webcast:

“What do you imagine changes will happen in your super app? Your super app is already seen as highly complete, so what are the benefits of the super app for the account holders, for your customers?”

Mr. Menin: I don't know who asked this, but I thank you anyway. Our super app... well, in order to have a really nice super app you need some elements, high data quality as we want to be 100% the digital, and also on smartphones, and they have to be recurrent, we have an average of 1 log in, more than retail banking, and we need to have loans or credit available and also the possibility of making payments. So this makes us really competitive in offering super app for selling non-financial services as well.

So those who already like the bank, we want them to enjoy their app experience. Why not buy your air ticket for instance through Banco Inter or a movie ticket? You can buy it through our bank. We want people to experience our platform increasingly more, so with these elements it's only natural that people consume products and services that are nonfinancial services through our super app. We really excited about this.

By the way, we have a dedicated team, high-caliber team, Diego Gouveia, our CEO, Marcela as well is the COO of inter-marketplace, in addition to our technology team that is already working hard on the project. So I believe this will be a very interesting experience for our customers, again, with an efficient process to generate value as we've always done.

So the cash back is a practical example of returning that efficiency to our customers. So this is what we really believe, we are really excited about this, let's see how things will evolve in the next quarters or years. I think this will be highly interesting and highly transformational for the company as our digital account in 2016.

Operator: Please be reminded that if you want to ask a question, please press star 1.

We now close our Q&A session. I would now like to turn it over to Mr. João Vitor Menin for his final remarks. You may proceed.

Mr. Menin: Thank you. I hope I can see you soon in about 3 months' time for our earnings release call for the third quarter. I hope I have a lot of nice things to share, so thank you and have a nice day.

Operator: Banco Inter's conference call is now closed. Thank you everyone for participating. Have a nice day.