MOON CAPITAL MANAGEMENT

inter&co

Inter&Co (INTR) 8.14.26
$5.15; Market cap: $2.3 billion

Investment Thesis

Inter&Co is a high-growth digital banking platform in Brazil that currently trades at **6.5x earnings**. The stock remains depressed as investors have focused heavily on the modest rise in non-performing loans (NPLs) over the past few quarters while overlooking the fact that the improving economics of the business have outpaced any marginal deterioration in credit metrics.

At the current price, the company can be purchased for less than **1.1x book value**, despite the business generating a **16% return on equity** with a **clear glide path toward 20%+** next year. The benefits of operating a digital franchise with virtually no physical branch footprint are becoming increasingly apparent in its operating leverage, a trend that should continue. New-vintage economics also look attractive, suggesting that the rising NPLs are not necessarily indicative of deteriorating underlying economics.

If management continues to execute well, a mid-20s ROE appears to be a likely outcome over the next couple of years, even if the company ultimately falls short of its 28% medium-term target (30% longer-term target). At current levels, the stock trades at **3.7x 2028 earnings** if the business can run at a 23% ROE.

The market should also eventually value Inter at a materially higher price-to-book multiple once ROE sustainably exceeds 20%. The stock traded at roughly 2x book one year ago, before the recent ROE inflection became apparent. If the business continues to scale, improve efficiency and compound earnings as expected, the stock has the potential to **increase 5x over the next several years**.

Returns on Equity

Inter&Co is currently generating a **16.3% ROE**, a highly respectable figure in its own right, while management is targeting a **28% ROE by 2029**. At roughly **6.5x current earnings**, the market is assigning little value to this profitability trajectory. If management reaches its 2029 target, the stock would trade at **less than 3x 2029 earnings** at today's share price.

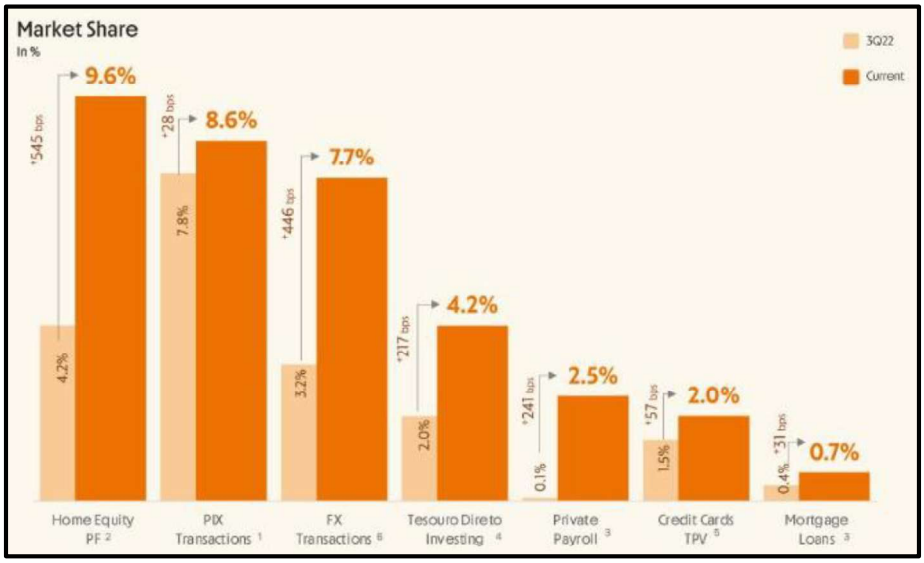
The path from 16.3% to 28% ROE is achievable under realistic assumptions. Simply continuing to scale the business and execute against its existing strategy could be enough to get there. Management has identified four distinct levers—**operating efficiency, capital efficiency, portfolio optimization, and underwriting**—each of which can contribute meaningfully to improved returns moving forward.

With each passing quarter, the results provide more evidence that management's expectations are achievable. The underlying business continues to improve, operating leverage is becoming increasingly evident, post-provision net interest margin is expanding, and ROE is steadily increasing. Management

is guiding to another **~300 bps of ROE expansion over the next four quarters** and has repeatedly noted that it has good visibility into this improvement. In the medium term, the **mid-20s ROE target looks highly attainable**, with potential for further upside. The main drivers are outlined below.

Revenue Growth

Inter is positioned to compound revenue at roughly **30% annually** over the next several years, driven by continued customer growth and increasing share of wallet. The company is still taking market share across virtually every category in which it operates within Brazil's large financial services market, a trend that should persist as consumers increasingly favor digital banks over traditional institutions.



This shift reflects more than the convenience of digital banking. Brazil's legacy banks have long been associated with branch visits, paperwork, lengthy processes, and a proliferation of fees. Inter's digital-first model eliminates much of this friction while avoiding the expensive branch networks and legacy technology that weigh on traditional banks. This allows Inter to provide a simpler, more transparent customer experience while operating with a structurally lower cost base.

The advantage is reflected in Inter's exceptionally high customer satisfaction. The company has historically ranked among Brazil's highest-rated banks, with a **Net Promoter Score of 85**, well above the major traditional institutions. High customer satisfaction should support retention, engagement, and organic customer acquisition while increasing the likelihood that Inter becomes customers' primary financial institution. This is particularly important because primary banking relationships tend to generate substantially greater product usage and share of wallet [1].

[1] The opportunity remains substantial: digital banks are becoming primary financial institutions for a growing share of Brazilians, with Nubank now serving as the primary institution for roughly 30% of Brazilian adults.

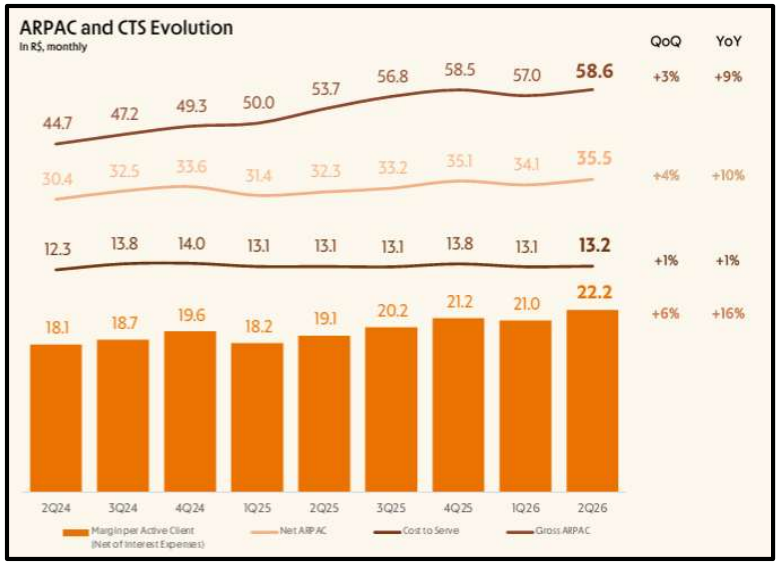
Inter now has approximately **45 million clients**, giving it a massive base from which to expand deposits, lending, payments, investments, insurance, and other financial products. Its Super App allows the company to deepen these relationships by providing a broad range of products on a single platform, enabling Inter to increasingly monetize existing customers rather than relying primarily on new customer acquisition.

The combination of dissatisfaction with legacy banks, Inter's lower-friction and lower-cost model, high customer satisfaction, and an increasingly broad product offering should allow the company to continue taking business from legacy financial institutions and sustain elevated revenue growth for years.

Operating Efficiency

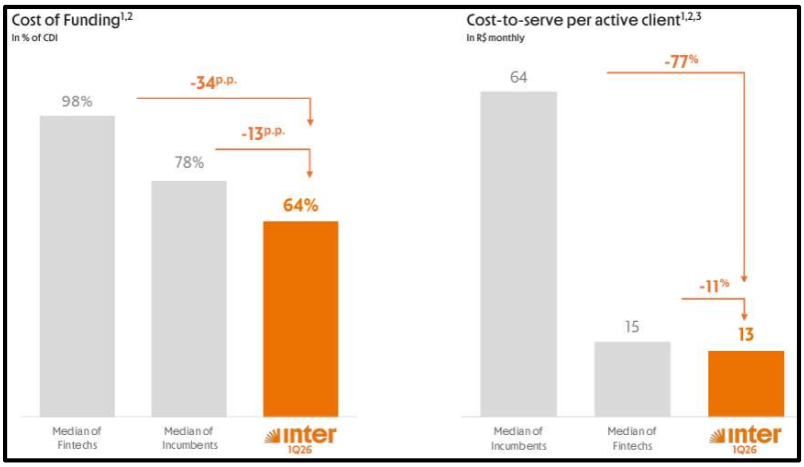
Inter's digital model allows the business to scale without a proportional increase in its cost base. Unlike traditional banks, Inter was built natively around a digital platform, allowing customer acquisition, servicing, and transaction processing to become increasingly automated.

Much of the expensive infrastructure required to operate a digital bank has already been built, so the marginal cost of onboarding and servicing additional customers should remain relatively low. The company has already deployed AI-powered navigation and customer-support tools within the app, allowing an increasing number of transactions and customer inquiries to be handled automatically, weakening the traditional relationship between customer growth and employee growth. At the same time, cross-selling through the Super App allows Inter to generate more revenue from customers it has already acquired, **effectively lowering its cost to serve**.

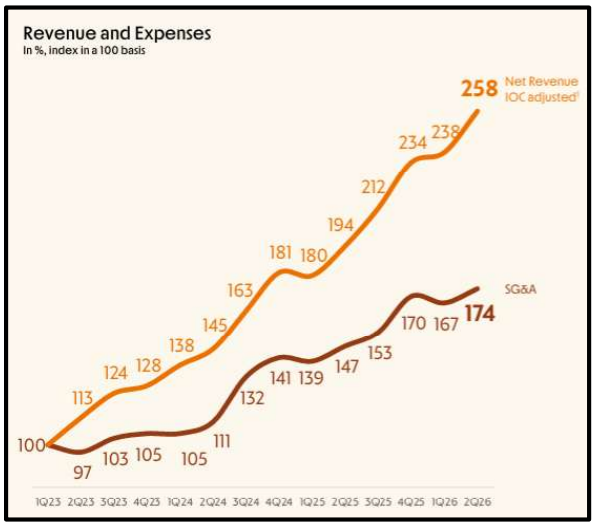


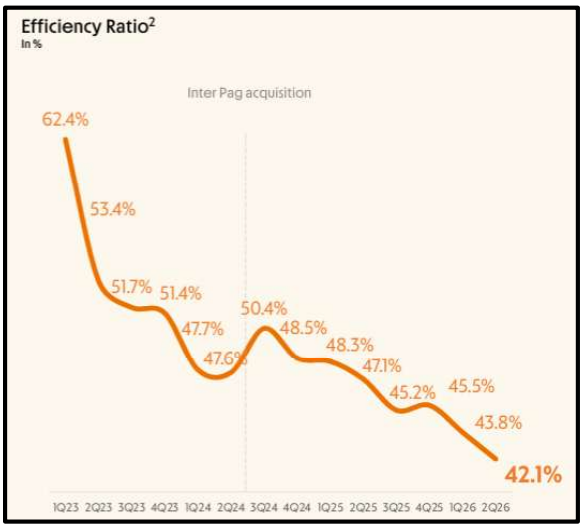
The company also has one of the lowest funding costs among Brazilian banks. Management has highlighted this as an important competitive advantage, with Inter's funding cost running at roughly **65% of CDI**. Because customers use the platform for everyday banking, payments, investments, and savings, Inter can attract and retain a large pool of low-cost deposits while relying less on more expensive wholesale funding. Its Super App also allows the company to deepen relationships with

existing customers and capture a greater share of their financial balances over time. As the customer base grows and customers increasingly consolidate their financial lives on the platform, Inter should have more opportunities to gather low-cost deposits and further improve its funding mix, creating additional operating leverage as the business continues to grow.



This operating leverage is increasingly evident in the financials. The efficiency ratio continues to **improve each and every quarter** and the expense base has grown substantially more slowly than revenue. From 2022 to 2025, **active clients per employee doubled, while revenue per employee increased more than 120%.** Higher workforce productivity has allowed the company to selectively add talent in areas where expertise matters most, including risk management and compliance, while keeping overall headcount growth contained. Over the past twelve months, headcount remained roughly flat at 4,100 employees while clients increased 17% and the loan portfolio grew 36%. Administrative expenses are also growing at roughly half the rate of revenue growth. Going forward, corporate overhead should continue increasing at only about **60% of the rate of revenue growth** [2].





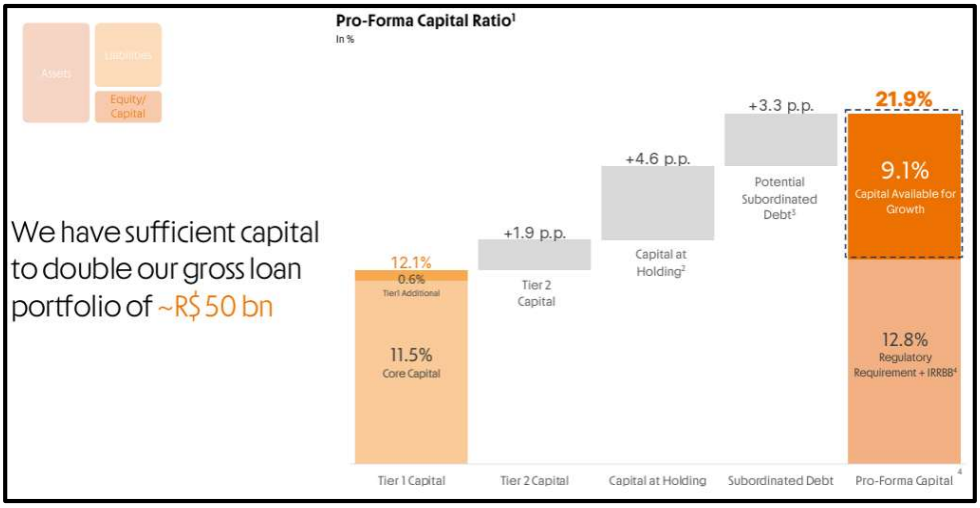
[2] Management hopes to bring this closer to 50% over time.

In 2Q26, the company's **efficiency ratio was 42%**, and management is targeting less than 40% by year-end. Over the medium term, the target is 35% with a **long-term target of 30%.** If the company achieves its medium-term target, a 700-basis-point improvement in the efficiency ratio will contribute approximately **350 basis points of incremental ROE**.

Capital Efficiency

Inter also has significant room to improve capital efficiency after maintaining an unusually high capital cushion during its earlier stages of development.

Over the last two years, the company has increased its leverage profile from 7.7x to 9.7x, moving steadily toward an **11x target**. The company currently has a 14.4% total Basel ratio compared with a 12.8% regulatory requirement, including the IRRBB [3] add-on. That represents roughly **160 basis points of capital cushion** at the bank, before considering the R$2.3 billion of excess capital sitting at the holding company. During Owner's Day this year, management indicated that the company had enough balance-sheet capacity to approximately **double its loan portfolio** when including the potential issuance of subordinated debt.



[3] An Interest Rate Risk in the Banking Book (IRRBB) add-on is an additional capital requirement imposed on a bank to ensure it has enough capital to absorb losses from changes in interest rates that affect its balance sheet assets and liabilities.

Inter is also increasingly optimizing its capital stack through the issuance of subordinated Tier 1 and Tier 2 financial bills, which qualify as regulatory capital and allow the bank to support additional risk-weighted asset growth without requiring an increase in common equity. The company issued approximately R$500 million of Tier 1 and Tier 2 instruments in December 2025 and another R$300 million of perpetual Tier 1 notes in April 2026. Management estimated that the April issuance alone would increase Banco Inter's Basel ratio by approximately 70 basis points.

Expanding margins have also made Inter's high lending growth self-sustaining. Rather than requiring incremental capital to grow the balance sheet, the company can now finance its growth entirely through retained earnings. Management marked this milestone on the 2Q26 earnings call, noting that **"for the first time, our business is generating more capital than it consumes to fund its own loan growth."**

Inter's funding franchise is scaling rapidly as deposits grow, giving the company an increasingly large and relatively inexpensive funding base. Any additional increase in leverage is therefore a meaningful driver of returns because Inter's underlying assets generate returns well above its cost of funding.

Taken together, a strong regulatory capital position, excess capital at the holding company, and continued deposit growth give Inter substantial capacity to grow its earning assets without requiring a similar increase in common equity. Increasing leverage from 9.7x toward 11x could add approximately **100–200 basis points to ROE**, providing another meaningful source of profitability growth.

Portfolio Optimization

Another opportunity for Inter to improve its return on equity is by redeploying proceeds from its maturing securities portfolio.

Balance Sheet (IFRS, R$ Thousands)	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26
Assets						
Cash and equivalents	1,458,588	4,834,125	5,695,320	3,801,513	4,296,629	3,106,104
Amounts due from financial institutions, net of provisions for expected credit losses	6,595,073	4,952,995	3,275,871	4,600,218	4,757,076	5,187,084
Deposits at Central Bank of Brazil	5,648,238	6,179,662	7,072,746	7,867,658	7,887,762	8,488,431
Securities, net of provisions for expected credit losses	24,703,003	23,860,348	27,078,010	29,010,323	27,340,856	29,590,658
Derivative financial assets	8,163	690	2,493	58,915	31,548	18,536
Loans and advances to customers, net of provisions for expected credit losses	35,088,280	37,779,506	41,113,584	45,251,104	46,485,365	48,356,876
Property and equipment	359,211	377,545	367,318	381,404	363,622	356,205
Intangible assets	1,925,819	1,970,727	2,006,644	2,023,939	2,100,275	2,135,320
Deferred tax assets	1,848,861	1,719,491	1,702,928	1,789,304	1,916,947	2,042,192
Other assets	2,923,328	3,057,830	3,493,594	3,827,140	3,890,100	3,630,116
Total assets	**80,558,566**	**84,732,919**	**91,808,508**	**98,611,518**	**99,070,180**	**102,911,522**

Inter has a **R$29.6 billion securities portfolio**, consisting primarily of Brazilian government bonds, that currently earns below-market returns. Much of this portfolio was accumulated when Brazil's SELIC rate was substantially lower, leaving Inter with a pool of legacy securities that are now relatively unattractive compared with the yields available on new investments.

Management has indicated that approximately **R$8–12 billion** of this legacy portfolio could ultimately be reinvested into higher-return assets, including Brazilian Treasury Notes (NTN-Bs), fixed-income products (FIDCs), and secured retail lending such as Private Payroll, gradually improving the portfolio's overall yield.

Current inflation-linked NTN-B bonds are trading with yields ranging from approximately IPCA + 7.0% to over 8.0% across most of the curve, significantly higher than the yields on many of Inter's legacy securities, which were purchased when real yields were lower.

Assuming a **300-basis-point improvement in asset yield**, redeploying R$10 billion would generate approximately **R$300 million of incremental pre-tax** revenue on approximately R$10 billion of equity. This is essentially an asset-recycling opportunity rather than an execution-dependent growth initiative, offering a relatively straightforward way to increase earnings. Simply allowing low-return assets to mature and redeploying the proceeds could add **200+ basis points to ROE** over time.

Underwriting

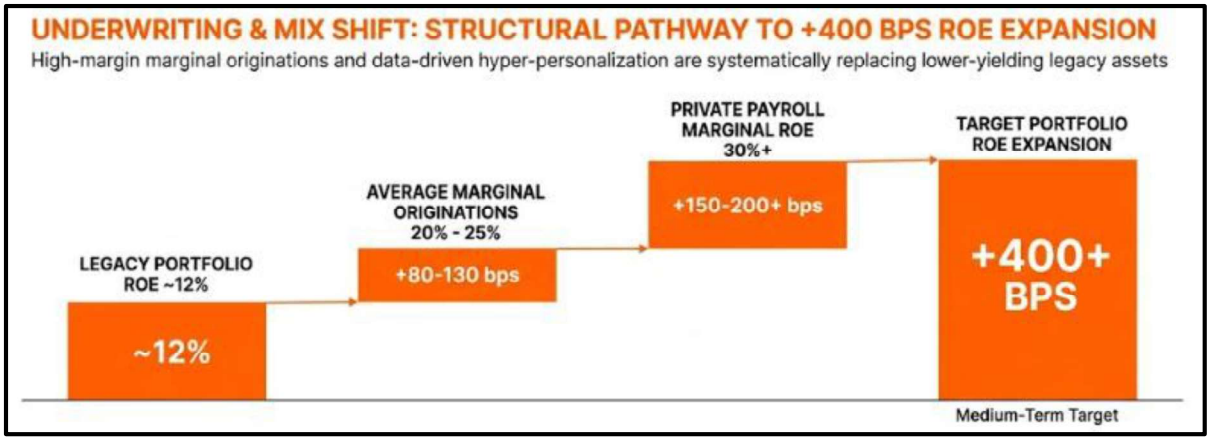
The fourth major source of ROE expansion is the composition and economics of Inter's loan portfolio. The existing book contains a mix of products with very different risk-adjusted returns, and the economics of marginal originations are materially better than those of the legacy portfolio. During this year's investor day, management noted that the legacy credit portfolio generates an ROE of approximately 12%, while marginal originations are generating ROEs in the mid-20% range. This gap reflects the evolution of Inter's product mix, pricing and underwriting capabilities.

Management has highlighted Private Payroll in particular as an attractive growth opportunity. These loans are secured through direct payroll deductions, carry relatively high yields, and can be originated through Inter's highly scalable digital platform. During the 2Q26 call, management confirmed that newly underwritten payroll loans are generating **30%+ marginal ROEs** after including overhead expenses.

Inter's underwriting economics have also improved as the company has scaled its customer base. With approximately **45 million clients**, Inter has substantially more transaction and customer data than it

had when much of the legacy portfolio was originated. This allows the company to better segment customers, personalize pricing and determine which products to offer to which customers. Management refers to this approach as **"hyper-personalization"**—dynamically repricing products such as buy now, pay later (BNPL), PIX Credit and Private Payroll based on the economics of individual customers while simultaneously optimizing the cost of funding on the liability side. The result is a more sophisticated ability to price for risk and allocate credit toward customers and products where the expected return is highest.

Management continues to improve returns by directing incremental lending toward products with superior risk-adjusted economics. Management has also indicated that it evaluates lending based on risk-adjusted NIM rather than simply minimizing credit losses, and newer products such as Private Payroll can achieve attractive economics relatively quickly as the initial provisioning burden is absorbed.



Inter is increasingly focused on secured lending and higher-yielding products, while optimizing the economics of its existing customer base. As Inter shifts its loan mix toward higher-return products, the profitability of the overall portfolio should increase. This underwriting and portfolio-mix optimization could ultimately contribute **400+ basis points of ROE** expansion over time.

Credit Costs and Nonperforming Loans

The main concern surrounding INTR stock in recent months has been deteriorating asset quality. All-in cost of risk reached 5.9% in 2Q26, up from 5.0% in 2Q25, while NPLs have also increased. This clearly warrants monitoring, and it would be a mistake to dismiss the deterioration simply because the company is growing rapidly.

However, the more important question is whether the additional credit losses are being adequately compensated by the economics of the loans being originated. A meaningful portion of the recent increase in credit costs appears to reflect the front-loaded provisioning characteristics of newer

products and Inter's deliberate shift toward higher-return lending [4], rather than any deterioration in underwriting quality.

Management made what is arguably the right point on the 2Q26 earnings call: **the objective is not to minimize NPLs, but to maximize risk-adjusted NIM.** A bank can always reduce losses by lending less and becoming more conservative, but that does not necessarily produce attractive returns. What matters is whether the incremental yield earned on a loan properly compensates for the incremental credit losses and additional capital it consumes.

Quarter	Non-Performing >90	Loan %	Loss Allowance	Loans	Coverage Ratio	Loan Yield	NIM	Provision	Risk-Adjusted (Post-Provision) NIM	Pre-Tax Income	ROE
3Q23	1,325	4.90%	1,747	27,044	132%	19.8%	8.1%	408	4.2%	145	5.0%
4Q23	1,425	4.79%	1,915	29,784	134%	19.7%	7.9%	384	4.5%	208	8.2%
1Q24	1,553	5.03%	2,059	30,859	133%	19.9%	8.2%	411	4.8%	274	9.2%
2Q24	1,663	5.04%	2,165	32,972	130%	19.7%	8.2%	421	4.9%	298	9.8%
3Q24	1,720	5.10%	2,227	33,706	130%	19.0%	8.7%	471	5.2%	294	11.3%
4Q24	1,737	4.88%	2,367	35,596	136%	19.0%	8.7%	496	5.3%	340	12.5%
1Q25	**1,734**	**4.64%**	**2,472**	**37,395**	**143%**	**20.3%**	**8.8%**	**514**	**5.5%**	**358**	**12.9%**
2Q25	1,842	4.58%	2,641	40,237	143%	22.5%	9.1%	569	5.6%	384	13.9%
3Q25	1,983	4.52%	2,901	43,818	146%	23.6%	9.3%	641	5.6%	418	14.2%
4Q25	2,266	4.70%	3,205	48,251	141%	23.0%	9.6%	693	5.9%	465	15.1%
1Q26	2,546	5.11%	3,498	49,822	137%	22.8%	9.5%	781	5.6%	477	15.5%
2Q26	**2,762**	**5.32%**	**3,710**	**51,927**	**134%**	**23.7%**	**10.1%**	**860**	**5.9%**	**512**	**16.3%**
	1,027	**+70 bps**	**1,237**				**+130 bps**		**+30 bps**	**2,613**	

Inter's results suggest that the higher credit costs are being absorbed by the improving economics of its lending business. Since NPLs troughed at the beginning of 2025, **NPLs have increased by roughly 70 basis points**, while the stock has fallen from approximately $8 to $5.00 as investors have extrapolated the deterioration in credit metrics. Yet over the same period, net interest margin (NIM) has **expanded by roughly 130 basis points.** Even after provisions increased by more than 60%, **post-provision NIM remains about 30 basis points higher than at the beginning of 2025**, while **ROE has increased by roughly 340 basis points.** In other words, Inter is absorbing materially higher credit costs while simultaneously becoming more profitable.

The rise in NPLs has also not led to a meaningful decline in coverage. Inter's **134% NPL coverage ratio in 2Q26** remains within management's stated target range of approximately 130–135%. This level of coverage is broadly in line with other large Brazilian banks that have similar lending mixes and is consistent with both Inter's historical levels and management's assessment of the appropriate reserve level for its portfolio. At the same time, the company has maintained this level of coverage while generating more than **R$2.6 billion in pre-tax income after provisions** since the beginning of 2025.

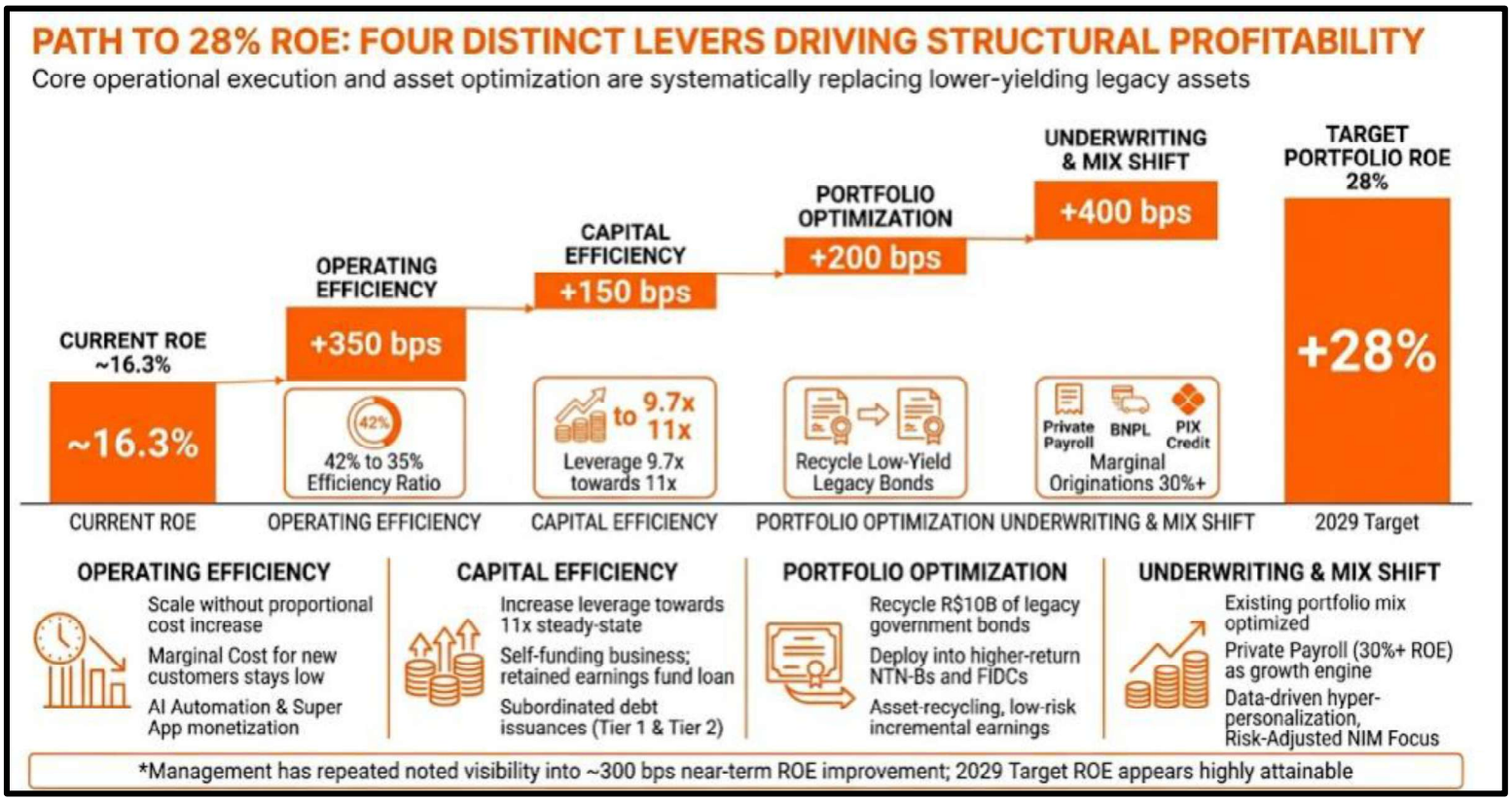
[4] During the early stages of a product's ramp, the accounting cost of provisioning can run ahead of the economic contribution of the associated loans. The total cost of risk was 5.9% in 2Q26, but 5.5% excluding Private Payroll.

The increase in NPLs is worth watching, but the combination of stable coverage, improving NIM, and higher returns on equity suggests that the deterioration in headline credit metrics is not currently undermining the underlying economics of the business. NPL formation should stabilize over the next few quarters, while the stronger economics of newer originations should more than compensate for the associated credit costs.

Conclusion

Inter offers a rare setup of rapid growth, improving profitability, and a deeply discounted price.

The company does not need to execute perfectly for the stock to perform well. Operating leverage, capital efficiency, portfolio optimization, and a shift toward higher-return lending products each provide separate avenues for ROE improvement. At roughly 6.5x current earnings and 1.1x book value, the market appears to be placing little value on any of these opportunities.



Management expects another 200—300 basis points of ROE improvement over the next four quarters, while the business continues to grow rapidly. If Inter can sustain 35–40% annual EPS growth while moving toward a mid-20s ROE (and ultimately toward management's 28% target), the current valuation will become increasingly difficult to justify.

The market's main concern is asset quality. But so far, credit costs have risen more slowly than the economics of the franchise have improved. NPLs are rising, but NIM is expanding faster. Provisions are

higher, but post-provision NIM is still increasing. And ROE is rising despite the deterioration in credit metrics. At the same time, new loans are being written at increasingly attractive returns.

As NPL growth begins to stabilize (even without reversing), the market's focus on credit quality should begin to fade. Investors can then refocus on what is becoming an increasingly profitable, high-growth, high-ROE digital financial franchise trading at under 7x earnings. **This combination of a low starting multiple, significant ROE expansion, and 30%+ EPS growth creates the potential for a 4–5x return [5] over the next several years.**

	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	2026	2027	2028	2029
Net interest income	992,421	1,041,866	1,164,350	1,258,108	1,362,594	1,469,507	1,622,691	1,819,027	1,881,750	2,043,934	8,198,000	10,329,480	12,860,203	16,010,952
Non interest income	408,518	436,732	511,793	586,377	475,207	533,575	539,473	578,864	559,237	593,172	1,956,000	2,347,200	2,816,640	3,379,968
Net revenues	1,400,940	1,478,598	1,676,142	1,844,485	1,837,801	2,003,082	2,162,164	2,397,891	2,440,987	2,637,106	10,154,000	12,676,680	15,676,843	19,390,920
Provisions	411,048	421,248	471,427	495,730	513,681	569,249	640,796	692,627	781,268	860,432	3,427,000	4,379,000	5,473,750	6,842,188
Non interest expense	716,161	759,743	910,763	1,008,497	966,573	1,050,305	1,103,443	1,240,077	1,182,601	1,264,673	4,668,000	5,368,200	6,066,066	6,854,655
Employee costs	190,463	204,207	258,955	284,137	234,873	256,765	285,248	313,447	284,777	302,984	1,258,000	1,421,540	1,563,694	1,720,063
Pre-tax profit	273,732	297,607	293,952	340,259	357,547	383,528	417,925	465,187	477,118	512,001	2,059,000	2,929,480	4,137,027	5,694,078
Income taxes	78,512	74,944	33,942	45,311	50,759	51,361	61,920	62,826	59,571	65,126	275,000	498,012	827,405	1,252,697
Net profit	182,793	206,479	242,671	275,189	286,522	315,131	336,345	374,392	394,788	421,109	1,784,000	2,431,468	3,309,621	4,441,381
Earnings per share BRL	BRL 0.43	BRL 0.48	BRL 0.56	BRL 0.63	BRL 0.65	BRL 0.71	BRL 0.75	BRL 0.84	BRL 0.89	BRL 0.94	BRL 4.01	BRL 5.38	BRL 7.22	BRL 9.54
Earnings per share USD	$ 0.09	$ 0.09	$ 0.11	$ 0.11	$ 0.11	$ 0.13	$ 0.14	$ 0.16	$ 0.17	$ 0.18	$ 0.77	$ 1.01	$ 1.33	$ 1.72
EPS Growth	*1404%*	*295%*	*146%*	*67.4%*	*51.5%*	*48.1%*	*35.2%*	*33.3%*	*36.9%*	*32.5%*	*35.4%*	*31.6%*	*31.5%*	*29.6%*
										Earnings Multiple	**6.7**	**5.1**	**3.9**	**3.0**
ROE	**9.2%**	**9.8%**	**11.3%**	**12.5%**	**12.9%**	**13.9%**	**14.2%**	**15.1%**	**15.5%**	**16.3%**	**16.6%**	**20.0%**	**23.5%**	**27.0%**
Efficiency ratio	47.7%	47.6%	50.4%	48.5%	48.3%	47.1%	45.2%	45.5%	43.8%	42.1%	44.0%	40.1%	37.4%	35.1%
Shareholders Equity	8,392	8,462	8,867	8,895	8,901	9,290	9,680	10,170	10,195	10,525	11,425	13,482	16,380	20,475
Price	**$5.15**								**Price to Book**	**1.14**	**1.05**	**0.89**	**0.73**	**0.59**
Shares	447.7								*IPM Est*		*1,782*	*2,251*	*2,748*	
Market cap (BRL)	12,036	Market cap (USD)	$2,306						*Earnings multiple*		*6.8*	*5.3*	*4.4*	

[5] At approximately **6.5x EPS and 1.1x book value**, Inter trades at a substantial discount to Nu Holdings, which trades at **14x EPS and 4x book.** Nu is unquestionably a best-in-class compounder and deserves a premium valuation. However, the size of the valuation gap becomes difficult to justify if Inter can execute on its profitability targets.

Inter has the potential to grow earnings at a rate comparable to Nu over the next several years. The key difference is that Nu is substantially more mature in Brazil, with penetration approaching 60% of the adult population. As a result, an increasing portion of its future growth must come from newer international markets, where the economics and competitive dynamics are less proven. Nu is also already operating at a high level of efficiency, leaving less room for further operating leverage.

Inter, by contrast, remains earlier in its development curve. It still has substantial room to improve efficiency while continuing to grow its customer base and loan portfolio rapidly, providing more opportunity to benefit from operating leverage and drive earnings growth.