

Q3 2020 Earnings Call

Company Participants

- Inacio Reis Caminha, Head of Investor Relations and Funding
- Mauro Dutra, Chief Financial and Investor Relations Officer

Presentation

Operator

Good afternoon, ladies and gentlemen, and welcome to Banco PAN's Conference Call to discuss the Third Quarter of 2020 Results. This event is also being broadcasted simultaneously on the Internet, both audio and slide show, which can be accessed on the company's IR website, www.bancopan.com.br/ir, and MVIQ platform with the respective presentation. (Operator Instructions)

Forward-looking statements are subject to known and unknown risks and uncertainties that could cause the company's actual results to differ from those in the forward-looking statements. Such statements speak only as of the date they are made, and the company is under no obligation to update them in light of future developments.

With us here today, we have Mr.Mauro Dutra, Banco PAN's CFO and IRO; and Mr.Inacio Caminha, Head of Investor Relations and Funding.

Now I will turn the conference over to Mr.Mauro Dutra, who will begin the presentation. Mr.Mauro, please, you may proceed.

Mauro Dutra {BIO 21792010 <GO>}

Okay, good morning. With us in the name of Banco PAN to talk about our results of the third quarter of 2020 and our presentation. We are, in general, we are very satisfied with the overall performance of the bank during this quarter, as we manage the bank conservatively, we advanced on our digital strategy, and we also delivered very consistent results in our view.

I'll start on Slide 2 where you can see the highlights of the third Q. Starting with the average, monthly origination, we originated the BRL2.3 billion per month in this quarter, which represent 30% growth, when compared to the same quarter of '19. Our credit portfolio reached at BRL25.3 with a very good performance that we'll give you some details during the presentation.

Our earnings before taxes reached in the quarter BRL259 million. And in the first nine months of the year BRL677 million, which represents 40% more than we had at the same

period of last year. With these earnings before taxes, we reached a net income of BRL170 million in the quarter and BRL485 million in the year in the nine months of the year, which also represents almost 40% growth, when compared to 2019.

With such net income, we reached 21.5% adjusted ROE in the quarter and in line 21.6% ROE in the first nine months. And the accounting ROE was 13.2% in the quarter to 12.7% in the first nine months, compared to 10.4% in the nine months of 2013, which is an important improvement in such metric.

Our equity reached BRL5.2 billion in September compared to BRL4.8 billion in September '19 and our Basel ratio reached 16.5%, which is fully comprised of our core Tier 1 capital in this indicator.

Moving on to Slide 3. We then talk about the quality of our portfolio, the performance of our credit portfolio. Starting with the default ratios, the over 90 ratio decreases from 7% in June in the end of the second Q to 6.7% in September in the end of the third Q. And the early indicator, the over 15 to 90 days ratio also improved from 8.9% to 7.3%. For this early indicator, you have some details at the bottom of the slide, where you can see this improvement has been consistent on a monthly basis, since the peak in April '20.

Also important to mention that we kept our very conservative approach in terms of credit deferment. We only postponed two installments of 13,500 clients, which represent almost 1% of our portfolio. And the subsequent overdue installment -- 92% of the subsequent overdue installment have already been paid, showing the quality of the credit we postponed. Our credit policy remains conservative in terms of credit metrics, and we are comfortable with such policy to face the crisis and the economy looking forward.

When you move to Slide 4, you can see that the delinquency ratios are bringing lower provisions on our results. So, we had the provision expenses compared to the portfolio of 4.8% in the third Q compared to 5.9% in the second Q. It happened because not only that the provision expenses themselves decreased, but also the credit recovery was also better in the quarter, indicating that our portfolio is performing pretty well. Worth to mention also that our portfolio was kept at 94% in payroll loans and collateralized loans, which is mainly represented in our vehicles financing business.

Talking about our digital strategy on the next slide, the Slide 5, we have our three pillars here. The first one is the digital formalization in which we reached almost 70% of the payroll loans transaction formalized using digital tools. And for the vehicles business, we reached 96% in the quarter. We can say that 82% of all the transactions we made in these two businesses in the month of September were formalized digitally.

The second pillar of the digital strategy is our digital bank, which is already a very complete experience for the client and we are launching new features on a quarterly basis, as we are talking with you investors. For this quarter we launched Poupa Pan, which is a time deposit with daily liquidity, pretty much in line with our clients' need. And we are very satisfied with that. And we also start the registration of the instant payment PIX,

which in our view, will bring very much better user experience for our clients, which will allow us to engage more clients in our digital bank.

Talking about our partnerships. We also would like to mention our diversification in terms of products and channels and in the diversification of channels, we are increasing the number of total partnerships we have here in the digital bank reaching 46 in September, in the end of the third Q. So, we are very happy with our digital bank and our digital strategy. We are advancing as we expected and we are seeing the client and partners more engaged with the bank and with our tools.

I'll then let Inacio go through our detailed figures and then, we can then talk about any questions you may have.

Inacio Reis Caminha {BIO 19326001 <GO>}

Great. So, moving on to the Slide 6, we have the quarterly results. So, the main numbers and indicators. In the upper left corner, we see the chart showing the net interest margin, which totaled BRL1.4 billion, 20.5% advancing due to the increase in the core portfolio, also associated with strong spread levels.

In this quarter, we assigned lower volumes than we did in the second Q. We already talked about credit provisions that decreased in the quarter and the other expenses totaled BRL715 million in this quarter, increasing mainly due to origination expenses, related either to greater volume, also different mix, but including as well the effects of the digital bank.

In personnel expenses, collective agreement also had an impact. So, we got to an earnings before tax of BRL259 million, BRL170 net income, and finally, the 21.5% adjusted ROE, very robust level.

The next slide brings the accumulated figures for the nine months. So, net interest margin got to BRL3.8 billion increasing 28%. Credit provisions increased 19%, totaling BRL1.1 billion. Other expenses also increased 19% totaling BRL2 billion. And these levels of expenses, in the end, they reflect the bank that changed in these 12 months. So, not only about growing origination, but also more investment in technology and obviously the digital bank, which had no effect in the nine months of 2019, for instance.

Even so, we saw an important evolution in the earnings before tax reaching BRL677 million, 41% above the same period of 2019. And we keep seeking more efficiency gains. Net income was BRL485 million and the adjusted ROE 21.6%.

Speaking about the adjusted ROE on Slide 8, we have the composition based on the accounting ROE. So, this metric has basically two adjustments in the net income and also in the equity. The adjusted results, the adjusted net income is calculated by excluding the excess of financial expenses from the legacy deposits. So, that we would have instead of the BRL170 million, BRL223 million in the quarter and BRL647 million in the nine months. It's

very important to mention that in this fourth Q '20, approximately one-third of the deposits mature. So, they will have the accounting results.

In the second adjustment, we exclude the excess of DTA from the legacy tax losses, which does not allow us to leverage our balance. So, we compare that adjusted profit with BRL3.9 billion of adjusted equity. Therefore, we come from the 13.2% accounting ROE to the 21.5 adjusted ROE in the third Q, for example. These are two simple adjustments, simple to understand and to isolate and better translate the bank's returning the margin.

About origination on the next page, we show the evolution. We see a record of BRL2.3 billion in the third quarter, advancing 29% in 12 months, totaling almost BRL7 billion in new credits in this quarter. In payroll loans, we originated BRL1.2 billion per month, keeping the same level as we saw in the last quarter, which was already a strong quarter.

In vehicle, we generated BRL672 million per month in the quarter, increasing 61% over the second Q, with a very conservative origination, maintaining a better performance than observed by the market. In credit cards, we also advanced significantly, reaching BRL511 billion per month, reflecting here not only the partnerships, but also the first times of the digital bank.

So, with that origination, we got to the credit portfolio on the next slide, which increased 7% in 12 months totaling BRL25.3 billion. Structurally, the distribution of products remain similar, with payroll representing 52%, BRL13.3 billion.

Vehicles portfolio ended the quarter at BRL9.8 billion or 39% of the total. Credit cards reached BRL1.4 billion, also advancing, representing 6% of the total, and then we have the runoff portfolios that we treated significantly. So, if we look at the core portfolio, which excludes these runoffs, we had a greater increase. So, 4.4% in the quarter and 11% in 12 months. It is also worth mentioning that the relevance of payroll loans and collateralized loans account for 94% of the portfolio and renegotiated loans are very small, only 0.6% of the portfolio. We also see here the originated portfolio, which includes the portfolio assigned to controlling shareholders, which ended the quarter at BRL32.6 billion.

Talking about payroll on Slide 11. We continue as a very relevant player with 4% federal holds. In this quarter, we originated BRL1.2 billion, BRL3.7 billion in total, out of those 94% regarding loans and 6% on credit cards. We maintained a very strong level of production in line with second Q, when we had the influence of regulatory changes that allowed us -- allowed a greater volume back then. And then we also saw 69% of total origination made through our digital platform, which has been a very strong differential in the market bringing more efficiency, also it will allow us to scale the B2C business.

The origination remains concentrated in federal agreements, representing 95%, out of those being 84% of the social security program. We saw an increase in both portfolios, not only in the loans, but also in credit cards, totaling BRL13.3 billion. And we have seen recent other regulatory changes that will likely generate more opportunities in the short-term, as we have already seen.

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Moving on to vehicles on Slide 12. The portfolio increased 20% in 12 months, reaching BRL9.8 billion with very adequate level of loan-to-value and also term in these loans. The table show up an interesting increase making BRL572 million per month, a record in origination. If we compared to the market, the performance in light vehicles remained above, even with the recovery made by the market recently, but in motorcycles the difference is very strong. So, we see a relevant growth, gaining market share and maintaining absolute leadership for several months. It is also worth mentioning that our main objective here in this business is to originate with quality and profitability. So, market share is only a consequence.

And as I mentioned before, the digital formalization platform also advanced significantly in vehicle financing. We got to 96% of everything originated without paper. And this has been benefiting a lot of the operation, when providing a better experience, not only for the partners, but also for the clients.

Moving on to credit cards on Slide 13. The transactions increased very significantly 64% in 12 months, reaching BRL1.5 billion in total. And here we see the impacts of greater issuance of cards sold through multiple channels. And we also see the first signs of the digital bank, we are very satisfied and see a lot of opportunities ahead. Another very interesting aspect is that our customers are increasingly digital so, whether in hiring the credit card or servicing or even receiving the voices, which brings more efficiency and better experience for everyone.

On Page 14, we see the evolution of insurance premiums. We originated BRL35 million in premiums per month in the quarter, recovering significantly following the performance of the vehicle origination. But also with the beginning of new types of insurance, for example, mechanical assistance that has been advancing.

To promote more opportunities in insurance sale, we have started to offer payroll loan, insurance with great potential for growth. And we also see the digital bank as an important tool to leverage the sale of other types of insurance.

On Slide 15, we see the evolution of funding, which closed the quarter BRL25.5 billion, increasing 10% in 12 months. Deposits as a whole increased participation, contributing to the spread of our funding, diversificating [ph] through direct customers, also independent distribution platforms, including as well institutional investors.

And on Slide 16 to conclude, we have the capital. We ended the quarter at 16.5%, entirely comprised by CET1. We're showing a very strong level of capital that will allow us to move forward with our growth plans. Our strategy remains the same to be a complete banking solution platform focused on credit for low-income population, intense digitalization and diversification of products and channels. In addition to everything that we already do, the PIX sand open banking will contribute to our growth and assertiveness in customer relations.

So, with that, we will conclude the presentation, and open the line for questions.

Questions And Answers

Operator

(Question And Answer)

Thank you. Ladies and gentlemen, we will now begin the Q&A session. (Operator Instructions) Since there seems to be no further questions, I would like to turn the floor over to Mr. Mauro Dutra for his final remarks. Sir, you may proceed now.

A - Mauro Dutra {BIO 21792010 <GO>}

Okay. Thank you, everyone, on the online for being here with us. Just reinforcing, we are pretty confident with our strategy and very excited with the opportunities we see ahead. And see you next quarter to talk about the results of the first Q. Thank you.

Operator

Okay. This concludes Banco PAN's conference call. You may now disconnect and have a good day.

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