Q2 2021 Earnings Call

Company Participants

- Joao Marcello Dantas Leite, Chief Financial Officer
- Roberto Balls Sallouti, Chief Executive Officer & Director

Other Participants

- Gustavo Schroden, Analyst
- Jorge Kuri, Analyst
- Pedro Leduc, Analyst
- Tito Labarta, Analyst

Presentation

Operator

Good afternoon, and welcome to the second quarter of 2021 Results Conference Call of Banco BTG Pactual.

With us here today, we have Roberto Sallouti; Joao Dantas; and Jose Miguel Vilela. We would like to inform you that this event is being recorded and all participants will be in a listen-only mode during the bank's presentation. After Banco BTG Pactual's remarks, there will be a question-and-answer session for investors and analysts, when further instructions will be given. (Operator Instructions) Today, we have a simultaneous webcast that may be accessed through the website www.btgpactual.com/ir and the platform. There will be a replay facility for this call from August 10 through August 16.

Before proceeding, let me mention that this call may contain forward-looking statements relating to the prospects of the business, estimates for operating and financial results and those related to the growth prospects of Banco BTG Pactual. These are merely projections and as such are based exclusively on the expectations of Banco BTG Pactual's management concerning the future of the business. Such forward-looking statements depend substantially on changing market conditions, government regulations, competitive pressures, the performance of the Brazilian economy and the industry, among other factors and risks disclosed in Banco BTG Pactual's file disclosure documents and are, therefore, subject to change without prior notice.

Now I will turn the floor to Mr. Roberto Sallouti, who will begin the presentation. Mr. Sallouti, please go ahead.

Roberto Balls Sallouti {BIO 4150617 <GO>}

Thank you very much. Good morning or good afternoon to everyone on the call. Thank you for joining.

This is actually the first call that we present after we consolidated the control of Banco Pan. However, for transparency and continuity, we are so excited to continue reporting as we have in the past. So Banco Pan will be shown in participations as it was an equity pickup, even though we do not have equity pickup anymore because we control Banco Pan. The other areas of BTG will continue to be reported as we always have done. The only exception being the balance sheet, liquidity and capital metrics, where then we will have consolidated numbers because we think this is the most transparent way to show it.

So having said this introduction, moving on to the presentation, I'd like to say that we are very, very satisfied and proud of the results of the second quarter. We had record results across the board, not only on a consolidated basis, but on all the different bits and Dantas will describe this in more detail on the second half of the presentation.

But turning to Page 3, we would like to start with a few highlights that we would like to call your attention to. The first one is that we had record net new money and consequently record assets under management and wealth under management in this quarter. We had an astonishing BRL98 billion net new money in the quarter. This brings our last 12 months net new money to BRL257 billion and over the first half of the year to BRL174 billion. Our assets under management and under administration grew 65% year-over-year, reaching more than BRL0.5 trillion in assets at the end of Q2. And finally, our wealth management AUM grew astonishing 96% year-over-year, reaching BRL379 billion, very important to mention here that this is money from individuals. There is no custody of institutional investors, who owned equity in this number. This is just individuals who have their savings with us and invest their resources with us.

Turning to Page 4, we had fantastic growth and very strong profitability in the quarter. Our total revenues for the quarter grew 52% year-over-year, reaching BRL3.8 billion and net income grew 74% reaching BRL1.7 billion in the quarter. We had a 21.6% return on equity in the second quarter of the year.

Turning to Page 5, we show the very strong growth we had in our credit portfolio and in our unsecured funding base, while at the same time, we were able to keep a very disciplined and robust balance sheet. So our credit portfolio grew 51% year-over-year, reaching a total of BRL86 billion, of which BRL14 billion is in the SME segment. Our unsecured funding base grew 59% year-over-year, reaching BRL128 billion, and we finished the quarter with robust 17.3% capital Index, which is above all of the other S1 banks.

Turning to Page 6, we mentioned a few of the transactions we did over the quarter. We continue to implement the selective M&As agenda to accelerate growth and the creation of value. And in this quarter, we continued with our strategy of offering potential partnerships to the largest IFAs in the market, where they can eventually become broker dealers hiring our broker as a service. So we concluded transactions with Acqua-Vero and

Wise. We think it's a limited number of IFAs that have this possibility, but we are very happy with the top performing ones that we brought to our platform.

In this quarter, we also announced the acquisition of Grupo Universa, which has the brands of Empiricus, Vitreo, Money Times and Seu Dinheiro. It's the continuation of our growth strategy and bringing in new brands to continue to expand in the retail investment market. We finalized our partnership with Perfin, which is an independent asset and wealth management platform. And with this, we think this will allow us to offer our clients a range of more sophisticated investment products. And finally, we concluded the sale of our stake in CredPago to Loft. We will receive part of the payment in cash, part of the payment in shares of Loft. But most importantly, we also closed a strategic agreement with Loft, where we will be offering financial products in their platform.

Turning to Page 7, we show the results like we historically have done just for continuity. So we finished the quarter with total revenues of BRL3.77 billion and net income of BRL1.719 billion. As I mentioned previously, this was a return on equity of 21.6%. Our cost to income ratio for the quarter was a bit below our historical average, basically benefiting from the very strong growth we had in revenues. So we had a cost to income of 40.9% and a comp ratio of 25.2%. And we finished the quarter with assets of BRL335 billion, a capital ratio as I already mentioned of 17.3% and shareholders' equity of BRL35 billion, which already includes the almost BRL3 billion that we raised in the follow-on offering that we did during the quarter.

Turning to Page 8, we have the highlights of the first half of the year, where we had total revenues of BRL6.6 billion roughly and net income of BRL2.9 billion. Here we still are in the lower end of our historical cost to income ratio. So 41.8% in the cost to income ratio, 25.5% in the comp ratio. And as mentioned previously, our shareholders' equity increased almost 37% year-to-date, finishing the semester at BRL35 billion.

On Page 9, you can see the breakdown of revenues between our different areas. And this is something that we strategically have been pursuing over the last few quarters, which is a very well balanced distribution among our biggest business lines, and we see that every quarter that passes this becomes more and more distributed, this becomes a reality. So very equal distribution among investment banking, corporate lending, asset and wealth and investment management, and all of these continue to grow stronger. And over time, we expect that together with sales and trading, there will be roughly equal in percentage of revenues naturally with some natural fluctuation depending on the activity of each unit in each quarter.

On Page 10, we mentioned the highlights of the ESG and impact investing accomplishments in the quarter. We're very proud to have been chosen by Institutional Investor as the best ESG Research in Brazil. This is the first time this category was awarded, and we are once again very, very proud to have received this award. Our green portfolio surpassed BRL7 billion in the quarter. We helped our clients issue over $1.3 billion in sustainable finance instruments. We have started to allocate the capital of our impact investing Fund, which we just finalized the fundraising and investing in our tech-based education company. With the leadership of our CFO, Dantas, rejoined the Partnership for

Carbon Accounting Finance, which has over 130 financial institutions in 43 countries to committed to measure and disclose the greenhouse gas emissions of our business.

We were elected by FTSE or the London Stock Exchange for the FTSE4Good Index, which basically evaluates over 300 indicators of ESG practices, and we were selected to join the Index, which makes us very proud. And finally, for the retail market, we launched our carbon calculator, so that any individual can just go to the BTG+ website and understand what their carbon footprint is. So we think this is an educational process that eventually these clients might desire in time to neutralize their carbon footprint and just help us address this urgent matter which affects the whole globe.

So with this, I pass the word to Dantas, who will talk about the performance of each of the individual business units.

Joao Marcello Dantas Leite {BIO 17617595 <GO>}

Thank you, Roberto, and thank you all for joining our call today.

We're very proud of the results that we're going to discuss now, business by business, as we typically do just before we do there. Just to emphasize and clarify more. So now Banco Pan is fully consolidated in our financial statements, as of this quarter for the first time, so the analysts and investors, they look at our financial statements in details will see assets, liabilities of Banco Pan are included in our financial statements. We will keep reporting to you in this conference call the results and the performance of BTG Pactual. We will incorporate the net results of Banco Pan in the participations line and the performance of Banco Pan, you should all continue to evaluate according to the disclosures we will provide will continue to provide in the earnings release of Banco Pan.

So moving to Page 5 -- sorry, Page 12. Here we start with investment banking, which had the best quarter ever in our history. The best results we provided, we produced BRL685 million as of revenues. The backdrop of this performance is of course the entrepreneurial environment we have in Brazil and LatAm entrepreneurs are very active, while they work a lot, we work a lot and the more we all work, the more revenues we produce. A lot of activity in all the areas inside investment banking, we had the best quarter for DCM revenues ever, the best quarter also for ECM revenues and an interesting add-on in this quarter compared to the first quarter of 2021. We did have a lot of M&A revenues. Last quarter we didn't capture M&A revenues.

We had some strength in the pipeline. The pipeline is stronger now of activity and deals happening. So all in all, a strong business environment. Entrepreneurs are dealing well in Brazil and outside of Brazil as well with the current uncertainties. But looking at the long term and investing and while they do we support them. And so we're very happy with the results that we achieved. We continue to be the number one investment bank in the rankings both in terms of M&A and ECM. In the quarter, we were number two in number of transactions in ECM in Brazil and LatAm, number one in M&A, but certainly the largest revenue and the largest bottom line contribution comes from our investment banking division.

Moving to Page 13. Here we will explore the results of corporate and SME lending. Another business that produces record revenues in a quarter, reaching BRL655 million of revenues. But starting on the right part of the page, you see first the portfolio, the total credit exposure reached BRL86.4 billion, growing about BRL6 billion as compared to the first quarter of this year, so a BRL6 billion additional credit exposure in a quarter, about 7% growth in the quarter and 51% growth year-on-year. Of the BRL6 billion, we grew about a little bit less than BRL4 billion in SME lending and a bit more than BRL2 billion in the corporate lending.

The portfolio expansion is consistent and is consistently being pushed by the strong demand from the corporate sector to expand production capacity into the acquisitions as well. The SME portfolio continues to grow, it went from BRL3.8 billion a year ago to BRL14.1 billion now, so it's still a portfolio concentrated on two main products, the large one is the supplier financing and the second one is, which is growing is the credit card receivable discounts. We are planning to add, and we are already in the soft launch of our transactional banking platform for SMEs in the second half of this year. We are already in test, it's going to be a very robust fully digital banking platform designed for SMEs. This will enhance our ability to interact more, understand more, have more knowledge and visibility of their businesses and with that increase even further our credit offering for that segment.

In general, our spreads are stable, which is very good news. The high credit quality is maintained and the provision levels continue to be adequate. In general, our counterparts, as I said, are navigating quite well on the current economic and political environment, and we see a lot of entrepreneurial confidence in the environment. Also important to mention, we had very strong -- once again very strong contribution from our special situations book, which continues to be representative inside corporate lending and continue to open new areas of activity and new opportunities for us going forward.

Moving to Page 14. Here we have the results of sales and trading. Another area where we have the highest revenues in a quarter ever. Revenues growing 20% year-on-year even which is strong growth when you compare the current quarter to the very strong second quarter of 2020, when we had actually the recovery of markets more towards the end of the second quarter, post the initial impact of COVID-19 pandemic. As I said, not only the highest revenues in the quarter, but also the lowest level of VaR, which has been decreasing quarter-on-quarter consistently. So you see we reached BRL1.2 billion of revenues with 25 basis of average VaR as a percentage of average equity of the bank.

This is an interesting combination, which depicts the picture of what goes on in sales and trading, it's important transformation sales and trading is benefiting a lot from market dynamics. We have diversified sources of revenues. We have increased the fee-based income as a component of the total income of sales and trading. With that, we see VaR gradually reducing. I would say that the 25 basis as a percentage of average equity is actually quite lower than we would expect going forward. But as you see in the graph, the VaR there is a trend, a clear trend of us deploying less of our capital in sales and trading and more of it in turn in credit in the on-balance sheet credit in the banking book. This is a combination of these diversification off businesses inside sales and trading, which will continue going forward as we see economic stability prevailing in Latin America.

Also very important to note in the quarter, not only record revenues with lower use of capital for market risk, but also one very important recognition that we had and Roberto mentioned it, we were voted by our clients through Institutional Investor, as the best capital markets firm in LatAm. We won as the best research team in LatAm and Brazil, the best trading team in LatAm and the best sales team in LatAm and Brazil, and also the best corporate taxes. So all across our teams have been recognized by our clients, which makes us very proud and also very confident on the business because sales and trading is a business based on research, based on a lot of knowledge that is deployed by the hundreds of people they talk to clients every day and who are chosen by our clients to help them manage their exposures, their market risks inside their businesses. This is why sales and trading has been growing, not only because of the diversification of revenues, but also because of the quality of the market perception and of the advice that we pass on to clients. And the recognition by our clients through Institutional Investors is important attestation for that.

Moving to Page 15. Here we have the asset management business and another record in terms of net new money and assets under management. Starting on the right part of the page, you see that our assets under management reached BRL501 billion. So a bit more than BRL0.5 trillion of assets under management now, with BRL44 billion of net new money in the quarter. So which is also our highest ever inflows. We are the fastest growing large-scale asset manager in Latin America. And that growth has been consistently presented over the quarters for some time now. As you look at the top of that graph, you see our net new money, starting from the second quarter of 2020, our net new money was BRL11.8 billion and then gradually higher net new money quarter-on-quarter until reaching BRL44 billion this quarter.

The quarter had BRL270 million of revenues compared to BRL265 million of revenues in the first quarter. So a little bit more revenues, but to go into a bit more details, here, on the first quarter this year, we had much more and we typically do have much more performance fees than in the second quarter of this year. If you exclude the performance fees, which are not presented here, but I'm giving you the additional detail, if you exclude the performance fees, the growth in management fees was 12%, which is the exact same growth of assets under management from the end of the first quarter to the end of this quarter. This shows and that's going to be true if you look at longer-term horizon, which shows that we are raising capital, we are increasing our assets under management and inside asset management, the fees that we charge to our clients, the ROAEs by category have been stable and they have been stable for some time.

Revenues per asset class continue to be stable, not only on the discretionary part of the business, but also the non-discretionary part of the business. The revenue trends are explained by the shift on the mix of assets under management and fund services now and it's true since the end of last year is represents slightly more than 50% of our total assets under management. There is a strong pipeline that we see ahead of us for deploying a alternative investment products. We have been doing that since some time now. We have the new private equity fund that we call Economia Real and the new Impact Investing Fund, both have finished the capital commitment phase, and they're going to raise more than BRL2 billion -- have raised more than BRL2 billion has already. We have also two new private active funds to invest in the agro business in Brazil and also our credit fund to invest in infrastructure, both will raise more than BRL1 billion of assets under management.

And we will launch, by the end of the year, we already finished the capital raising and we will launch a private equity fund dedicated to the fiber business in Brazil, investing in the spin off of Oi and that fund alone will raise much more than all these products that I mentioned that have been launched already. So a lot of activity inside alternative asset management. Real estate is also capturing a lot of growth and issuing new products, evergreen products, most of them and this is a trend -- a change in the trend of capital allocation by our clients we saw in the last 12 months. Big movements of risk aversion and the beginning of the pandemic and then risk on right after that and markets recovered. All of that more looking at the short-term perspective of risk taking. And now we see strong demand from our clients to allocate capital in longer term horizon, longer term investment alternatives. And we will be providing continuously more and more products from our asset management business.

We also have a strong pipeline of products being launched by many of our independent asset management partners. To quote some of them we have (inaudible), which is a US Independent asset manager. We have Perfin that Roberto mentioned already, plus other 6 -- or 5 or 6 different smaller partnerships with local asset managers in LatAm that will enhance our product mix and offering to our clients. So a fantastic quarter for our asset management business and good perspectives going forward.

Moving to 16, wealth management and consumer banking business present trends similar to asset management, but even further more accelerated than what we have captured in terms of growth in asset management. This quarter we had our best revenues in wealth management, the best net new money and the highest ever wealth under management. So starting on the right part of the graph on Page 16, you see that our assets under management reached BRL379 billion, inside wealth management the so called wealth under management, growing 20% quarter-on-quarter and 96%, so almost double in a year from the second quarter of last year.

Also looking at the net new money, the trend is a similar trend to what we have in asset management, going from standpoint BRL7 billion of net new money a year ago to 2020, BRL33 billion and now BRL54 billion of net new money in the present quarter of which if you exclude the consolidation of net and where we had about BRL12 billion of net new money from individuals. We are left with BRL42 billion of net new money, excluding the acquisition of Necton and the consolidation of Necton. So BRL42 billion is still our highest ever new money and a trend that makes us very, very happy.

Looking at revenues, we have BRL375 million of revenues in the quarter, a 27% growth from the first quarter of 2021 and 89% growth from what we had a year ago in the quarter -- in the second quarter of 2020 a year ago. So the trends are the same as we have in asset management ROAs by product or risk class are impact preserved and all the risk classes experiencing inflows from existing clients and new clients in the upper retail segment that we are gradually penetrating more. Important to note here that what permeates in good part this accelerated growth in wealth management and the digital investment business is the launch of our consumer banking platform.

BTG is now consolidated platform in terms of the product offering. It's a complete platform, just started -- just starting its two write its history. And we can say it's one of the best amongst the best digital banks for high income retail in Brazil. And I would say, also compared to our competitors around the world, it's best-in-class products and services for transactional account, current account for high income retail clients. This is the most comprehensive product offering in Brazil. We launched a few products that are worth mentioning during the quarter. The additional credit card, which is an important feature we launched our credit card last year. Now we launched the additional credit card feature, so attached to your credit card, you can offer the additional credit card for family members. It seems simple, but most of our digital competitors in Brazil, the neo banks have not been able to deliver that product yet, and we have done that in less time, which is a good indication of our capacity to deploy technology into new products.

Also we have the automatic debt feature. So you have expenses that you pay on a regular basis, you can now book them to be paid automatically every month. And the most important is the personal financial management tool, one that we developed internally and that has added a lot of functionality and quality in the services to our clients. So a combination of those products. With that we launched now with those that we offered and though that are in the pipeline is what makes BTG the current account of choice for sophisticated individuals in wealth management and high income retail in what makes us confident that this expansion pace will continue going forward.

I believe that the impact of this change in scope of our wealth management business has been noted by the market, but not yet fully appreciated. These are profound changes. Profound changes in terms of the number of clients that we already see that have only one main bank relationship, which is with us including ultra high net worth clients that have chosen us as their main bank relationship in terms of 100% of their needs from banks. This increases our ability not only to open new accounts, but also to increase the share of wallet with the existing clients. So it's a combination that is quite powerful in the synergies created amongst these businesses, integrating them furthermore and accelerating their pace of growth.

Moving to Page 17, we have principal investments and participations, a few comments here. Starting with the principal investment revenues, we reached BRL242 million of revenues compared to BRL238 last quarter and BRL221 in the last quarter of last year. That's quite a stable trend as you remember, we have two main investments here, which is our stake in Eneva and our stake in Prime Oil, which used to be called Petro Africa. And since the fourth quarter of last year, as you'll recall, we have been booking those investments according to the equity method of accounting. Therefore, in every quarter, we pick up our share of profits from these businesses should enhance the lower volatility on the quarter results in comparison.

Also important to note that both Eneva and Prime Oil are market conservatively, Eneva is market conservatively compared to the market value since the share trades. We have a significant discount, if you compare a book value to the market value of Eneva of our stake in Eneva. And also in Prime, if we were to run a valuation is not mark-to-market doesn't trade Prime shares. But if we were to mark, if we were to evaluate according to the results that we expect in the future, there would be a loan for significant marker, which we want to -- we will continue to book them at cost plus our share of profits.

And looking at the participations earnings, a little bit of that is also true or I would say, much more is also true. Here, we have basically the earnings from Banco Pan, Too Seguros and EFG. As you recall, EFG is now a small investment in the bank. The majority of the investment has been transferred to our holding company. And since Banco Pan and Too Seguros are delivering better results, we have now reached the BRL159 million in revenues compared to BRL116 last quarter.

Also important to note here, our strong element, an important element of conservatism since we book Banco Pan in our books. Also, according to the equity method of accounting is basically 71.7% of the equity of Banco Pan that we have in our group equity. If you compare that to the market value of Banco Pan as of the end of the quarter or as of today, we have an embedded value or a non-recognized gain, which we will keep not recognizing it will keep the current method of accounting, but the difference is BRL12 billion. For those who look at us from a price to book perspective, this is also an important information, since the amount of embedded value here changes significantly even our book value.

Moving to Page 19, a little bit of how those trends are impacting our expenses and main efficiency ratios. The expenses in the second quarter are growing compared to the first quarter, as a reflection of our strong level of investments. As you know, all our investments typically flow through P&L, except if we are investing in equity. But if we are hiring people to develop projects, our new products or new features all those investments flow through P&L regularly.

We are now an IT team of 1,900 people, which is giving us a lot of bandwidth to deliver the new product, naturally costs will grow, but they are growing much less as it should be than the revenue base, the pace of growth in revenues. Our administrative and other expenses are also growing, both salaries and benefits and administrative and other expenses are growing about 10% compared to the first quarter, mostly due to the hiring of people. There is one impact to be noted here, which is the incorporation of Necton, the consolidation of Necton increases our assets under management, increases our revenues and also caused a little bit of the increasing cost in this quarter.

But all in all, this is the number that you should have in mind, we are growing 10% compared to the first quarter, because basically we are high. If you look at the total growth in costs, it's more than that is 29%, but the majority of the excess growth is basically coming from the bonus, which is very good news. I love to pay more bonus because when I have more bonus I have much more profits. So the 42% increase in the bonus pool is what increases the growth in expenses to 29%. We also have smaller impact coming from goodwill amortization. We did have some acquisitions, but goodwill is a small expanse for the size of our business, and also we have the tax charges which are revenue taxes imposed basically in Brazil and in Chile, which increases also pari passu with our revenue increase.

One last point -- two last points to mention here. Regardless of the increase in the costs, the cost to income ratio is down of course because we benefit from the stronger revenues that Roberto and I have described before. So with such strong top line, our cost to income ratio is at 40.9% in the quarter. And that is an efficiency ratio even below our historical average. And the income tax line at 24.8% of effective income tax in the quarter, a little bit lower than the first quarter. The main component that drives us to 24.6% of the effective income tax is the use of JCP, which is interest on equity in Brazil. As probably most of you know, there is a tax reform being discussed at the Congress today, which will eliminate the deductibility of the interest on equity or JCP in Brazil, but it will also, on the other hand, reduce the corporate tax for corporations in general and financial institutions.

We ran our analysis on that, and we expect that the current level of 24.6% around that is what to expect for next year. We don't believe -- we believe that one thing will kind of offset the other for our business and the detailed calculations, of course, we cannot be sure because the tax reform has not been approved yet. So it can still change going forward, but we believe that the current effective income tax rate is what should be the behavior of that line going forward.

Moving to the last section on the balance sheet, on Page 21, you see our total assets and total liabilities, reaching BRL335.2 billion, which is a 20% expansion, but basically because of the consolidation of Banco Pan, here is important to consolidate Banco Pan to provide you that visibility. The total assets of Banco Pan correspond to BRL42.7 billion, that's why our total assets went from basically BRL280 billion to BRL335 billion. If you exclude Banco Pan, our total assets have expanded a little less than 5% in the quarter, which is totally in line with the expansion of public credit portfolio of the banking book and of our business in general.

We are running the bank with a very comfortable coverage ratio, which is our comparison of our unsecured funding base to our banking book. We have about 2 times unsecured funding compared to the size of the banking book, the on-balance sheet credit basically, which is a very comfortable level of financing and of sources of funding for our business. We also have about 2.5 times our shareholders' equity allocated to the corporate lending portfolio, not including Banco Pan, the number changes a little bit if you incorporate Banco Pan here. This is historically also a good level of, I'd say, a low level of equity allocation to credit. So with all that running the bank with less than 10 times assets to equity, 2 times unsecured funding to the banking book needs for funding and about 2.5 times corporate lending to equity, we can say there we have a lot of room, a lot of dry powder to grow our asset allocation, to grow our business, to grow our balance sheet and maintain our sales in a very liquid and well capitalized standard, as we have been maintaining for many years now.

Of course, the maintenance of these metrics are in part deriving from our successful third follow-on offering that we completed during the quarter, raising close to BRL3 billion of additional capital and that's a very important thing because we have now fully consolidated Banco Pan, still delivering very strong liquidity and capital metrics. And we have a lot of room to continue to grow that. So we have room to continue to grow without sacrificing our fortress balance sheet standards.

On Page 22, we have the unsecured funding base developments. We are reaching BRL127.5 billion of unsecured funding on BTG Pactual alone without consolidating here the funding from Banco Pan. A few highlights that are important. Retail funding is now 19% of the total unsecured funding of the group, including Banco Pan or 13% of BTG Pactual standalone. That 13% represents a strong growth and BTG our current account is nearly beginning. So very happy with the 13% representation of retail inside our total funding in BTG Pactual.

Demand deposits are also becoming more representative. They are at BRL7.4 billion compared to BRL1.4 billion a year ago, which is another indication of the healthy developments and retail up -- an upper retail client attraction. Another important metrics is the LCR which is the regulatory liquidity measure, which is at 215%. Banks have to comply with at least 100% of LCR. We are at more than double debt, which is higher than the large commercial banks in Brazil.

Our offshore funding also continues as an important diversification away from the local money markets in reais and in Chilean pesos and a very -- makes us very happy with the recent developments. The most important recent development in the offshore family was the reopening of our 2025 bond. It's a senior unsecured issued in the end of 2019. Originally, with 5 year tenure now with residual tenure of 3.5 years. We decided to reap that DAP and issue another BRL250 million, taking the total outstanding to a BRL1 billion, a $250 million was mostly absorbed by private banking clients, we accessed private banking counterparts, family offices and multi-family offices internationally and we were very happy with the outcome. It's always good to have the private banking industry demanding your bonds, and we saw that structurally in this re-DAP which came out at 3.25 for the residual period.

So and to finalize the wholesale deposit expansion is also coming strong. The main reason for us to go from BRL80 billion to a year ago of unsecured funding to BRL127.5 billion now is the wholesale deposit expansion, which is coming from large corporates and also from institutionals, but I think the participation of large corporations in our deposit base has been quite strong and makes us very happy to see the development of our unsecured funding base in the last 12 months.

And finally, on Page 23, and to conclude the explanations our BIS ratio at 17.3%, still much above the average of the large banks in Brazil, which are themselves much above the average of large banks globally. The financial system in Brazil is one that is quite well capitalized. So to maintain about 200 basis points above the average of the financial system in Brazil is something that shows our commitment to maintaining a fortress balance sheet. And also gives us additional spam to continue to grow the business and capture the opportunities that we see. Inside the 17.3% total capital ratio, 15.2% is the core equity Tier 1. So it's, in our view, a very good levels of capitalization for the bank.

VaR as a percentage of equity, as we discussed inside sales and trading, is at 25 basis points, which is clearly indicating a downward trend. So less capital being allocated to market risk, not necessarily, we will keep these levels, probably it will return to a medium average. But certainly, there is a trend that we see that is consistent, where corporate lending grows even more in terms of capital allocation than sales and trading.

All that said, in the quarter, when we raise capital in our third follow on, we are maintaining high liquidity, high capitalization and delivering 21.6% return on equity, which is higher than any of our large competitors in Brazil. So we're very happy with the results, and we will now open the floor to questions from all of you. Thank you very much.

Questions And Answers

Operator

Thank you. (Operator Instructions) Our first question comes from Mr. Jorge Kuri from Morgan Stanley. You may proceed.

Q - Jorge Kuri {BIO 3937764 <GO>}

Hi, good afternoon, everyone, and congrats on the phenomenal quarter. I have so many questions, but I'm going to ask two questions. The first one is on your corporate lending business, just looking at revenues over your average book, we get to an implied take rate or net yield of 2.7%. I'm trying to think about this going forward, given A, rates going up in Brazil quite significantly going forward with consensus now at around 7.5%. And two, then mix changes that are moving your book more and more to SMEs, where I'm assuming you get better returns relative to your traditional corporate business and you also mentioned your special situations book, which I'm assuming is also higher yielding. So I'm trying to understand how to think about that and whether or not revenues should be growing ahead of the portfolio over the next two years? And I'll ask my second question later.

A - Roberto Balls Sallouti {BIO 4150617 <GO>}

Thank you, Jorge. So it's actually a bit more cumbersome than that, right, because you have, let's say, the large corp and if you remember, we really increased our large corp at a very attractive moment, which was the peak of COVID, where we're the only capitalized bank. So we were able to lock spreads, which are probably not at what you can roll over. At the same time, yes, you are right, we are growing our business in higher spread businesses. I don't necessarily see any huge impact from the increase of interest rates and the level of spreads. The market is pretty much a CDI plus market and when it's not, it adjusts different than for example in consignado, where there it does affect a bit, but not in these business lines. And as you mentioned, special situations, we're quite conservative. So every once in a while, you have a one-off. Having said all this, I would probably say that when you put everything in the mixer, the average spread will probably continue more or less stable.

Q - Jorge Kuri {BIO 3937764 <GO>}

Great, thank you, Roberto. And then my second question is on sales and trading. I know this is very difficult to answer. So just bear with me. But it is very relevant given that it's almost a third of your revenues. And so I think it's important to try to figure out what is sustainable or recurrent level and what I guess I'm trying to get is BRL1.2 billion, is a huge jump relative to the less than BRL1 billion you did over the last year for example. And so what element here are really a change in the way you can potentially generate revenues with sales and trading, you obviously have more capital? Your value at this was obviously open but in your profit growing pool increase it as you suggested, so that argues for better numbers. And you also talked about a mix effect and going to the different assets and relying more on fees, and so I'm wondering to what extent somewhat the jump in sales and trading is a little bit more permanent going forward? And whether we should expect sales and trading revenues on a quarterly basis may be closer to BRL800 million, BRL900 million maybe even BRL1 billion per quarter? Or you think that sort of BLR600 million to BRL500 million, which is what you have in the past suggested as retiring is possible? Thank you.

A - Roberto Balls Sallouti {BIO 4150617 <GO>}

So clearly, what this quarter proves is that the level of sales and trading has changed, what you call, a recurrent level and it's much more dependent on the level of activity that we have from clients, then on us, having any directional bets that we're right. And why is this happening? Because we are having new products and new clients and increasing our share in clients. So we're having increased demand from corporates, as we continue to open new clients. We have now the retail investor in market make corporate bonds, you have the energy market, and all of this, we have an increased market share and increased volumes and institutional equity sales.

So when you put all this together, I would probably say that we have shifted to a recurrent level of, let's say, BRL1 billion. And then you have plus or minus 20%, which is a bit more dependent on you making sure that you -- when you do the market making, you don't get any stuck with any wrong position or you have a little direct exposure. But clearly, it has shifted and personally, I believe that this now is this BRL1 billion level with plus, minus 20% more dependent on, let's say, specific part of the cycle and any directional exposure, right or wrong.

Q - Jorge Kuri {BIO 3937764 <GO>}

Great. Thanks, Roberto, and congrats again for the extraordinary quarter. Thank you.

A - Roberto Balls Sallouti {BIO 4150617 <GO>}

Thanks, Jorge.

Operator

Our next question comes from Mr. Tito Labarta from Goldman Sachs. You may proceed.

Q - Tito Labarta {BIO 20837559 <GO>}

Hi, good afternoon. Thanks for taking my question. And again, congratulations on the strong quarter. A couple of questions also, I guess first on the ROE, I think pretty impressive, return on equity considering you just raised capital. Trying to get a sense of the sustainability of that, I mean, Jorge just asked on the sales and trading. But you also investment banking, very strong quarter. I guess maybe to think about the investment banking and how sustainable that is, not just for the rest of this year, but next year, you have an election year and how that could potentially impact that and also the ROE along with that?

And then my second question is on the wealth under management, also an impressive results. There you continue to grow very strong pace. Maybe help us think how do you think about the addressable market there? Like how large, do you see this market? How big can you get within that market? And do you see yourself, I guess, taking share significantly or just benefiting from secular trends there, just to think about the growth outlook, given how strong it's been? And how can you continue to see that strong and for how long? Thank you.

A - Roberto Balls Sallouti {BIO 4150617 <GO>}

Thanks, Tito. So on your first question on the ROE, you have to first remember that this is the average equity, so it incorporates the capital increase for, I don't know, roughly one-third of the period, right. So when you go back to third quarter, if we had exactly the same result that would mean a lower return on equity, just on pure algebra. Having said that, I do think that if you look our business is a combination of businesses that are very stable and businesses that are a bit more cyclical, as well as businesses that use capital and businesses that don't use capital. But I guess your point is much more on the stability of the businesses.

So when you look at our five business units, three are very stable and growing. Asset management, wealth management and credit, they will continue to grow and they're very stable. Then you have two, which have some more volatility, but which we are quite confident that at least in the foreseeable future, even though there is the threat from elections that they will continue at very strong levels, which are investment banking and sales and trading. So investment banking, I mean it's quite public, you guys are seeing the level of activity, especially in equity capital markets, but not only debt capital markets and M&A is also very strong, so we're quite confident that at least in the next quarter, we will have very similar results to second quarter and sales and trading, even with all the noise, you still continue with a high level of activity. This activity changes a bit. So we are seeing less inflows into equity, more inflows into credit funds, but it's still, let's say, capital markets activity and given that we have a full franchise, we're able to benefit or not to benefit, we're able to compensate that one segment is not so strong, but other one is and then we can have a recurrent level of revenues.

So having said that, and it's for the foreseeable future, we see, let's say, at least stability trends of investment banking, sales and trading within the range I mentioned. We continue to see strong growth in credits, asset management and wealth management. And of course we will always be prepared for volatility in elections, and we think -- but we think that as long as fiscal sustainability keeps itself maintained and fiscal responsibility is respected, you will have volatility, but this trends that are benefiting our business, so financial deepening and financial disintermediation will continue.

On your second question, on wealth management, we think that we're definitely gaining market share across the board. We are gaining marginal market share in the high networth business, but we are going from zero in the mass affluent and in the retail markets. We had zero there, and it's fair to say that we will get significant market share there. So this is, let's say, a BRL4 trillion addressable market in Brazil. You have to remember that we also have our businesses in the rest of Latin America, and we also have our booking centers in Europe and Cayman and the US. And our offers are serving them in Portugal. So we do see space for us to grow significantly as we continue to gain market share.

I think we are benefiting from the structural change of investors leaving the commercial banks to more specialized platforms. We're not seeing a huge growth in the overall wealth management market, but we're benefiting from this trend of clients leaving traditional commercial banks and from us accessing segments of the market, which we did not access before, and both with the BTG Pactual brand, but also with other brands to complement our portfolio, such as Necton and NPD, for example.

Q - Tito Labarta {BIO 20837559 <GO>}

Thanks, Roberto. That's very helpful. Maybe if I can ask a follow-up then, and you kind of touched on a little bit, but in terms of the different channels that are leading to that growth. You've hired some IFAs over the last several months. You have the digital channels. Is there any difference in terms of the growth outlook, both contributing? And at the same time, how about competitive pressures there, right, I mean, you mentioned taking share from large commercial banks? But do you see risks either from the commercial banks reacting or other competitors in terms of pricing and any pressure from that perspective?

A - Roberto Balls Sallouti {BIO 4150617 <GO>}

Not on pricing, given that we're the most competitive offers. Of course, you see some competition on pricing on specific commodity products like ETFs. But no, pricing in general was not the battle. The battle is on service, product and technology. And here, we are seeing the big incumbents move, but they naturally have to deal with our legacies of technology and model. So we continue seeing there, we think that the newcomers have basically consolidated a lot, and we still see it is a business of scale. So you do need scale to have product, technology and marketing investment.

And you need to have the specialization to have a complete platform like we do. So in that sense, we really continue to see inflows across the board. We are gaining market share in the ultra high, we are gaining significant market share in the IFA market, significant share in the broker market and significant broker market share in the B2C, it's really across the board. And I think this speaks to the quality of the products, platform, service and technology that we have in our favor.

Q - Tito Labarta {BIO 20837559 <GO>}

Okay, thank you very much, Roberto.

A - Roberto Balls Sallouti {BIO 4150617 <GO>}

Thank you.

Operator

Our next question comes from Mr. Pedro Leduc from Itau BBA. You may proceed.

Q - Pedro Leduc {BIO 16665775 <GO>}

Hi everybody, thank you for the question. On wealth management, revenues and return on assets here, this of course has your both your B2C, B2B channels. And we understand you report revenues the BRL375 million already net of whatever commissions you're paying, a fees, etcetera. And if you look at your revenue pace versus the average wealth under management, even though, one has doubled last basically from last year, it seems like take rates and rollout are stable, maybe even sequential improvement. Is this a fair assumption? Can you elaborate a little bit around that? How are you managing that? The recent IFA deals are bringing to expect us a returns until the take rates or perhaps even better? So any color that would be appreciated? Thank you.

A - Roberto Balls Sallouti {BIO 4150617 <GO>}

So with regards to the investments that we've done, we are very satisfied. If anything, on average, the inflows and ROA are better than what we expected when we did these transactions. So we're very satisfied, we're convinced that there are good deals. There is such good deals that the competitor has paid probably more than we paid just to keep the business. So I guess that that means that it's -- we were doing the right investments.

What you said is true, it's given the combination or the average ROA they have been growing, but slightly, but there's also a process, right, because when you bring assets in, it takes a while for it to start generating higher ROAs because when you bring a portfolio that is already allocated, many times the fees of that portfolio already let's say, received by the former platform. So over time, what we do see is that the ROAs pick up. So that I think that over time, which we should probably expect is that this average ROA will creep up slightly every quarter, at least that's what we are expecting.

Q - Pedro Leduc {BIO 16665775 <GO>}

That's very useful. Thank you. And I have a quick follow-up on the whole sales and trading discussion and the value at risk and how it fits and you've mentioned a couple of times, it's down, used to be 0.4%, 0.5%, now 0.25%. Just want to make sure does this have anything to do with the Pan's equity increasing on the denominator there for the equity base? And it's sold and does that mean you have also a little more room to put more dollars back at risk, just a quick follow-up and clarification on that line?

A - Roberto Balls Sallouti {BIO 4150617 <GO>}

No it has to do, probably, maybe a bit with the capital increase that from our follow-on and from just we think profits, but nothing to do with Pan. But no, I don't expect to see us allocate anymore nominal risk than we are allocating. Maybe you do have a normal volatility. But overall, I think you can expect that over the next few quarters and years you will see lower VaR percentages than you saw in the last two or three years.

Q - Pedro Leduc {BIO 16665775 <GO>}

Okay, thank you.

A - Roberto Balls Sallouti {BIO 4150617 <GO>}

Thank you.

Operator

Our next question comes from Mr. Gustavo Schroden from Bradesco BBI. You may proceed.

Q - Gustavo Schroden {BIO 17051676 <GO>}

Hi guys, thanks for taking my question. Again, just one question regarding your capital base and capital allocation. So you just raised about BRL3 billion, but you have a strong capital base, not a base ratio. They deal with deals concluded. So my question is how should we expect the bank using this capital that should be to support above growth? Or should we expect more as buying more smaller assets and brokers as indeed, I would say, so any color on the capital deployment would be great? Thank you.

A - Roberto Balls Sallouti {BIO 4150617 <GO>}

So you should probably expect the largest part of this excess capital to be used in the organic growth of our businesses. So corporate lending, SME lending, the consumer banking business at BTG as we're expanding credit cards, the growth of Banco Pan, the natural growth of Banco Pan, and you should expect a minor usage of that capital and eventually very selective M&A opportunities or expansion of let's say the IFA network, even though I think the IFA network is now on a stalemate. I think we did our moves, competition did their moves, and I think everybody is pretty much a lot the market is pretty much locked up at least until something happens and then there is movement again. But we're not expecting any big movements in the short run there.

Q - Gustavo Schroden {BIO 17051676 <GO>}

That's great. Just one follow-up here on the credit lending. This quarter, the ratio between loan portfolio and equity was at 2.5 times. What is the best guess here for this year, for the next year? And can we use something about 3 times in order to have this is a good number?

A - Roberto Balls Sallouti {BIO 4150617 <GO>}

Look, still we are very comfortable with the 3 times, given what's happening to our unsecured funding. At some point, we can discuss if we think it's worth moving this 3 to 4 times. But I think let's still get there first, see if the opportunity, if the market is still healthy for us to grow. And then we can discuss that because we're still, I mean, a whiles away from that 3 times, especially because we will continue growing our equity, given retained earnings. So 3 times, we think is very conservative. It used to be conservative. It is even more conservative, given what's happening to our funding, especially our retail funding. So eventually, we can discuss moving that up, but when we get there, we can discuss that.

Q - Gustavo Schroden {BIO 17051676 <GO>}

That's very clear. Thank you very much.

A - Roberto Balls Sallouti {BIO 4150617 <GO>}

Thank you.

Operator

Thank you. That brings us to the end of the question-and-answer session. I will now return the floor to Mr. Roberto Sallouti for his closing remarks.

A - Roberto Balls Sallouti {BIO 4150617 <GO>}

Thank you all, once again, for participating in our earnings call. Thank you once again for your partnership and trust, and hope to see all of you in the next quarter here. Have a great day.

Operator

Thank you. This does conclude today's presentation. You may disconnect your line at this time, and have a nice day.