

Q2 2021 Earnings Call

Company Participants

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

Other Participants

- Analyst
- Henrique Navarro

Presentation

Operator

Good Afternoon. Ladies and gentlemen, and welcome to Banco PAN's conference call to discuss the second quarter of 2021 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 their 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 of the day 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; Mr. Inacio Caminha, Head of Investors Relations and Funding; and Carlos Pereira Guimaraes, CEO. Now I will turn the conference over to Mr. Mauro Dutra, who will begin the presentation. Mr. Mauro, you may begin your conference.

Mauro Dutra Mediano Dias {BIO 21792010 <GO>}

Thank you very much. Good morning, and welcome everyone to our conference call the second Q of 2021. Just giving you some highlights about the quarter we are very happy, we are advancing in the pursuit of being the complete platform for low income classes in Brazil, expanding our product offering expanding our investments in technology and of course in our clients -- in the growth of our client base and -- engagement with our client.

I will start the presentation on Slide 2, with our highlight for the quarter our client base reached 12.4 million clients which represent a more than 20% growth quarter-over-quarter and more than 100% growth on a year-over-year base. Our credit portfolio reaches BRL32.4 billion in the quarter which is a strong growth in our view. And the bank reported BRL202.0 of -- line of net income, which also is an important figure.

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The ROE of the quarter was 14.7% per year and the adjusted number was 20.6%. Both numbers grow when compared to the periods of this year and last year. Let's start with the network of Banco shareholder's equity was BRL5.6 billion to the firm growing as we generate profit and increase our balance sheet.

Moving on to Slide 3 where we bring some information about our clients, okay. The first important information I already mentioned is our client base -- total client base of 12.4 million clients. As you can see in the left hand side of the slide, we kept the pace of new banking clients per business day in this part. The base was 40,000 client -- new clients per day, which is the same pace of the first few, indicating that our strategy has been very good in terms of the developer position for the client, channels, and of course a good experience for the clients that are accessing our app.

On the right hand side, the -- banking clients base which reached 8.4 million client in June, in the end of the quarter and a new number which is very important for us. The active clients number we reached 51% of active clients in June. This indicates that clients are using our tools, our products and the engagement level is very good as we are growing in a very fast-paced to date and even that they active clients has been more than half up to date and we expect this year to keep increasing in the next quarters.

Moving on to Slide 4, a little bit more color on engagement which is very important for us. The first number is the number of accesses in our app in the color, which reaches 140 million accesses from our clients. This is very important as we see those accesses as touch points the clients in which we can understand what the clients doing we can offer new products and we can give him -- give them the best experience in the -- for Banco Pan.

On the right hand side, you can see the total transaction volume, it includes the TPD[ph] of credit and debit cards and also all the transactions clients are doing in or at -- in our checking account. This figure which is BRL7.3 billion in the quarter and the run rate if we analyze the number of June we reach BRL34 billion. So clients are using that -- clients are using our products and are bringing their money to transact with us, which makes us very happy and excited for keep this momentum and keep growing engagement and product launching for the next course. Inacio, will now talk about our financial highlights and then we can listen to your questions.

Inacio Caminha {BIO 19326001 <GO>}

Perfect. So turning onto Slide 6, we start with the quarterly earnings main figures. That net interest margin reached BRL1.7 billion, 21% per year, mainly influenced by the portfolio growth also, the levels of stress[ph] that we have in practicing in our loans, along with the create assignments that we've made in this quarter. Regarding provisions, we came from 3.1% net provisions compared to the portfolio, which was our historical low to 6.6% in this quarter, the second Q, which is still below the average and we are very comfortable with the trends and with the levels that we haven't seen credit costs performing.

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As for expenses, we came from BRL817 million to BRL1 billion roughly. This is mainly because of the origination that we saw bounce back in this quarter and also keeping the trend of very strong client base group, as Dutra mentioned and also, the level of credit cards that we have issued in this quarter. So, even with these increase in expenses, we saw 6% increase in net income, reaching BRL202 million, which represents 14.7% accounting ROE and the 20.6% adjusted ROE which are very strong levels of return and keep us very satisfied with what we have been delivering.

In the next page. We see the accumulated figures for the semester. So the same trends in terms of increasing net interest margin also credit costs under control. Coming from 5% to 3.4% over the portfolio, expenses growing from BRL1.25 billion to BRL1.9 billion mainly because of expansion in client base and also in the origination, bear in mind that all the cost that we have for our new clients we have been fully expanded.

Nonetheless, net income increased around BRL80 million to BRL293 million in the semester representing 14.4% accounting ROE and 25.5% adjusted ROE. So looking at Slide 8, we see how we go from the 14.7 to the 20.6, the accounting to the adjusted ROE mainly as many of you may already know we exclude the excessive financial expenses related to the legacy time deposits that we still have on our books. So the adjusted net income would be BRL241 million instead of the BRL200 million, and also the shareholder's equity that we consider is smaller than the accounting one. Because we exclude a set of DEA[ph] related to losses.

So with these two adjustments, we go from the 14.7 to the 20.6, which better demonstrates our return and it's also important to remember that both figures already includes a very significant investment in client base group. So these are very strong figures. Talking a little bit about retail origination on Slide 9. We see that there was a significant increase from first Q to second Q mainly because of payroll loans. So as we anticipated last quarter, the government made a change returning, the 5% increase that was valid in fourth Q of '20, it came back on April and it will last until December. So this increasing the margin allowed us to originate BRL4.7 million in payroll loans in this quarter and also vehicles origination -- strong base totaling BRL2.5 million. So in total we got to BRL7.2 billion in new credits originated in this quarter.

Talking about the credit portfolio on Slide 10. We got to BRL32.4 billion in June expanding 7% in the quarter and 31% in 12 months. When you look at the different products vehicles increased 8%, and credit cards increased 26%. Personal loans is also another relevant that has to be developed, and you get -- rate start to increase. It still a small portfolio, but we have a lot of potential to grow here, and we launched a very interesting product which is the payroll loan with a guarantee from the -- which is ways similar to payroll loans. So it's also secured and it's very easy to request a loan through our app actually, the -- we were the first bank to offer this in a digital way to get this loan and this is escalating quite fast already started in July.

So it's also important to highlight here that when we look at the portfolio 91% of it is either related to payroll or has some sort of collateral and when we look at renegotiated loans, we're talking about only 0.4% of the entire portfolio. So hitting a very steady pace to cover development and also exploring other type of loans without getting --

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Talking about performance before ratio in Slide 11, we see that the ratio of 10 to 15 to 90 days decreased to 7.5%, it's still running below the historical level. Naturally, when you look at the over 90 days, we were already expecting an increase because of the movement that we saw in the 15 to 90 days in the previous quarter. But we are still running in our historical levels, even considering that we have been gradually changing the mix towards a little bit more risky portfolio, but rendering a much more interest in terms of spreads.

All the delinquency rates are very controlled and we are very satisfied with the performance of the portfolio. Definitely read about the product on Slide 12, we have payroll loans we originated BRL1.5 billion per month in this quarter totaling BRL4.7 billion in the three months, out of those 94% related to loan, 6% related to credit cards and when you look at the breakdown the federal code represents 95%. So it's a very it's a -- it's a volume with a lot of quality and the social security program related loans which trends 84% of the entire origination and the portfolio got to BRL15.4 billion out of those BRL13.3 billion in loans and BRL2.1 billion in credit cards.

And as I mentioned, the extra 5% margin will be in place until December. Digital financing on Slide 13, we still see a very strong level of origination. So we originated BRL838 million per month facing a little bit of more competition, but still originated loans with a very adequate term. And also down payment levels. And the strategy here is very important. So getting consistent growth delivering quality, and also much more important delivering profitability.

The entire portfolio got to BRL13.5 billion expanding a little bit more or more in cars than in motorcycle. About credit cards on Slide 14 this is a very interesting product to explore engagement in Banco Pan's environment. So they are also very related to the checking account. We see that the new cards issued totaled, almost 700,000 cards in this quarter boosted by the checking account, this represented not only the new credit cards but also the other existing cards, they totaled a transaction volume of BRL3.4 billion increasing 34% Q-over-Q and this led to a portfolio of BRL2.6 billion in the end of June demonstrating a lot of engagement and how the client has been using the card.

And specially this talks a lot with our market because these clients they come here, they usually don't have access to credit elsewhere. And then, we are able to offer limits and reasonable rates using a lot of information, technology and exploring a lot of opening banking opportunities for instance.

As for insurance on Slide 15. We see that we issued a BRL160 million in premiums in this quarter a little bit below last quarter because this usually follows the vehicle financing originations volume, but what's interesting about this movement is that the other insurance products they have already started to escalate. So they reduce the downfall that we would see in the premiums. So annualizing the second Q, we would have BRL640 million in premiums which is a very relevant figure, comparing to what we see in the market.

And currently we have 1.4 million clients active using or having any sort of insurance contracted. Another thing that we have been doing regarding insurance is to deploy new

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products. This is a very interesting product to also create more engagement, to deliver more awareness about how to protect the client's goods or the client's credits. And we have been -- we have a roadmap to deploy at least four more products in 2021. So life insurance also home insurance, mobile or devices insurance and income loss protection.

In the end it is very interesting to explore insurance, because it translates into more services boosting our results. Talking a little bit about funding on Slide 16, we increased our base 25% in the last 12 months reaching BRL3.2 billion the strategy here is pretty much about diversification having access to different sources of funding and also benefiting from the checking account, which is still very small, but we see opportunities to increase.

And then this semester was very important in our trajectory here because we were upgraded by S&P and also by Fitch we had one notch global scale of upgrades by both agencies and three notches upgrade in the local scale by both agencies. So this translates into more and cheaper funding which supports our growth and one example of this movement is that we have just issued this month BRL750 million in bank notes. We had 3x more demands, and we saw a very interesting spread compression in the book building process.

So currently, we are rated AAA by S&P and AA by Fitch in local scale. And to conclude the presentation, we have the last slide about the capital ratios. Now, as we have been consolidated in BTG's economic and -- economic conglomerate, we wouldn't have an individual capital ratio, but to keep the disclosure that we have always done to the market. We kept calculating and publishing our individual capital ratios, which would be 15.6% in this quarter, value comprised by CT 1. So, with this we conclude the presentation and open the line for questions.

Questions And Answers

Operator

(Question And Answer)

Ladies and gentlemen, we will now begin the Q&A section. (Operator Instructions)
Henrique Navarro from Santander would like to make a question.

Q - Henrique Navarro {BIO 16188960 <GO>}

Hi. Good morning, everyone. Congratulations for the results. Once again, the growth in the client base was impressive. And normally in other key banks and digital banks stories, when we see such a kind of stronger growth in the client base, there's a negative impact on G&A because of the customer acquisition cost. Well, it doesn't seem -- seems to be Banco Pan. I mean, you guys have been able to grow strongly your client base without, I would say, any major negative impact on G&A. So, I would like to trust your help you to understand, and how is this possible? Because you're not focusing too much on high-growth and then you are being more conscious on cost controls, but I would like to hear thoughts on this -- of imbalance between the stronger growth in the client base and normally does this impact on G&A? Thank you.

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A - Mauro Dutra Mediano Dias {BIO 21792010 <GO>}

Thank you, Navarro. Very good questions. Dutra speaking here. I'll explain you. First of all, the growth of the client base is they're diversified in terms of channels, okay. So we used our proprietary channels in the client base and the client flow. Of course, we already have a strong client base in credit, and we have thousands or millions of credit request here in the bank each month. So, our proprietary relationship with client is an important channel of new banking clients. Besides that, we have partnerships, we used performance marketing, we have organic flow. So there are many, many different channels that bring the client and allows us to keep this -- allowed us to keep this space of new clients in the second quarter. This is the first part of the answer.

The second part is, if you look to the expenses of the bank, as Inacio explained it during the presentation, we are indeed seen an increase in the expenses of the bank. And this increase is concentrated on the investment we are making, not only in bringing new clients to the bank, of course once a client open to checking account, we have cost within either the -- the acquisition cost either the first cost of the -- of serving these clients, but also the investment in technology and products. Okay. So, we are seeing the expenses of -- increasing, because of those investments and we expect this will bring more profitability as the clients are increasing their engagement levels and we are launching new products each month.

Q - Henrique Navarro {BIO 16188960 <GO>}

Thank you. Very clear. And if I may ask just one more question, is will be at adjusted ROE. This is a fair adjustment, I mean, actually, I used the thing basis for adjusting my ROE. My question is on the access of financial expenses, I understand most of it will be over after 2025. So after 2025, we will -- we might be getting closer to adjusted ROE, when comes to the excess of financial expenses. But regarding the access of the case, honestly I don't have such a visibility. I understand that maybe in the next two or three years, you're going to consume your entire DTA, is this a fair assumption may be two or three years to eliminate the accessibility?

A - Mauro Dutra Mediano Dias {BIO 21792010 <GO>}

To eliminate the entire amount of DTA related to losses, I think you can use for five years. I think two years is to -- is not sufficient. But as you can see, we are decreasing the amount of DTA related losses every quarter, okay. And we expect to consume to finish this amount into four or -- the next four or five years.

Q - Henrique Navarro {BIO 16188960 <GO>}

Okay. That's clear. Thank you very much.

A - Mauro Dutra Mediano Dias {BIO 21792010 <GO>}

You're welcome.

Operator

Pedro (inaudible) from Banco Itau would like to make a question.

Q - Analyst

Hi everybody. Congrats on the quarter. Question on the NII, and growing faster here this year. It excludes the high (inaudible), you would have grown even faster, we estimate something around 40%, 50% year-over-year, which suggests margin expansion here or strategy expansions on market mix if it's a caught up. So if you can talk a little bit about NII evolution, excluding the final profits, what seems to have given up -- high like this, if it's hard to give kind of advice? And then how you are preparing for the of course higher funding cost that are coming with the -- a lot of the origination of payroll is a fixed rate will be hedge but as it evolves and how you NII may behave in the next 12 months or so in the higher funding cost or if you can offset it completely? Thank you.

A - Mauro Dutra Mediano Dias {BIO 21792010 <GO>}

Thank you very much Pedro. Another very good question. In terms of margin, as you can see, it increases in the last two quarter and you can see too many facts. The first one for the volume of credit assignment, which is very important business here for us, and we like this business as we talk with you guys every time, and also as you mentioned the mix. Okay. So when you look to NII and provisions and loss for losses, we see are very healthy movement here in the bank. And we are excited with expanding this in the next quarter.

In terms of funding cost, we have the bank entirely hedged. Okay. So, we priced our transactions once we have a large part of our assets in fixed rates. We price our transactions using the long-term interest rate curve. Okay. So we all read prices, all the movements. In the past, we've decreased, recently it increases. But as you see in our margin, we are seeing a very healthy level of spread and we are moving the bank into a mix more related to product with higher returns.

Q - Analyst

Definitely. And a quick follow up for the assignments of this quarter picked up again, of course, together with the origination piece. And can you assume that we've been assigning to clients other than price as well or if it's still being positive there or if you do diverse kind of a little bit? Thank you.

A - Mauro Dutra Mediano Dias {BIO 21792010 <GO>}

Yes. We had credit assignments to both Caixa and other banks I think in the second quarter. I mean, the first Q, we didn't had any credit assignment with Caixa only in the second quarter and we expect to keep this business running as we -- as I mentioned in the previous answer, the credit assignments are important too for us. Our worry is to keep growing the credit portfolio, keep growing the engagement of the clients, but credit assignments is also part of this industry business that increase our distribution capacity.

Q - Analyst

Got it. Thank you, and congratulations.

A - Mauro Dutra Mediano Dias {BIO 21792010 <GO>}

Good. Thanks.

Operator

(Operator Instructions) Since there seems to be no further questions, I would like to turn the floor over to Mr.Inacio Caminha for his final remarks.

A - Inacio Caminha {BIO 19326001 <GO>}

Well, thank you again for the presence. It was great talking to you here. See you next quarter and have a great day.

Operator

This conclude the Banco Pan's conference call. You may now disconnect, and have a good day.

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