

Q1 2021 Earnings Call

Company Participants

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

Presentation

Operator

Good afternoon, ladies and gentlemen. And welcome to Banco PAN's Conference Call to discuss the First Quarter of 2021 Results. This event is also being broadcasted simultaneously on internet, both audio and slide show, which can be accessed on the company's IR website ri.bancopan.com.br/en/ and MZiQ platform with the respective presentation.

We would like to inform you that all participants will be in a listen-only mode during the company's presentation. After the company's remarks are completed, there will be a question-and-answer session. At that time, further instructions will be given. (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 Mr. Inacio Caminha, Head of Investors Relations and Funding. Now I will turn the conference over to Mr. Mauro Dutra, who'll begin the presentation. Mr. Mauro, you may begin your conference.

Mauro Dutra Mediano Dias {BIO 21792010 <GO>}

Thank you very much. Good morning, everyone. Welcome to our conference call for the release of the results of Banco PAN's first quarter 2021. We will start the call of this quarter with some slides to talk about our strategy and the way we look to our business nowadays.

First of all, we completed during the first quarter, one year from the launch of our digital accounts, which took place in February 2020. And during this period, we've made significant progress in our strategy, which is being a complete platform for the low-income segment. We are using technology. We have an intensive use of technology to go beyond credit to reach our client's needs beyond credit transactions, and thus we are developing a complete ecosystem in this sense.

As you can see in this slide, we now look to our business in two main units. The Consumer Finance unit and the Banking unit. In the left-hand side of the slide, you can see the Consumer Finance segment, which encompasses our credit activity, which is one of our main competitive advantages and includes the payroll loans in vehicles financing businesses, where the bank has already a loan performance and growth history, as well as, new products such as the personal loan and others we are launching.

Regarding the Banking segment, which is the new way we are looking. In the bank, we have some businesses and I will start explaining the transactional bank. The transactional bank includes our digital accounts, credit and debit cards, top-ups, and many transactional tools our clients can use in our app. Then I move to the insurance businesses, in which we provide our clients a series of services beyond the traditional credit link insurance, creating a complete portfolio in which we have an important partnership with Too Seguros.

Then savings, which is an offering of Poupa PAN which is a fixed rate deposit -- fixed income deposit to our clients, and we are adding some simple investment products, we imagine we can have an important partnership with BTG here to offer those kinds of products, and also features regarding financial education, which is very important to our client base to the low-income segment.

The new business here here is the acquiring businesses -- business in which we offer a complete solution for MEI -- for self-employed workers and people who are already in our base and demand this kind of products. To develop, to increase engagement of this type of client and to help them with their businesses in their daily lives, we call our POS machine tool (inaudible) and we hope to scale up this business in the coming months.

So, we remain focused on product diversification, mainly driven by technology and we aim to offer our clients, our customers a complete experience with new businesses that will be announced in the coming months, in the coming quarters.

Moving on to Slide 3. This is just a way to explain a very important characteristic of our business as we look at it, which is the integrated environment. I mean, for example, a client can have an account with us, can open an account in Banco PAN, and then use our credit card products, our saving products, and any other one. Otherwise, the client can start his relationship with the bank by financing a new vehicle or a used vehicle (inaudible) acquire and then open an account and increase the number of products he uses. With this approach, we can reach diversified businesses, multiple channels. We can use technology to increase monetization and we keep -- we can keep the bank growing with good levels of profitability.

Talking about the numbers, the figures you can see in Slide 4. We reached 10 million clients in March, '21 between Consumer Finance and Banking Clients, okay? In the right-hand side of the Slide, you see a graph in which we show, we had, in March, 6 million Banking Clients. I mean clients with either digital accounts or a credit card. So, the clients that have this kind of relationship with the bank, the growth pace is very strong, more than 378% year-over-year since the first quarter of 2020.

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And in the left-hand side, you can see the pace, which was more than 40,000 new banking clients per business day in this quarter. The cost of acquisition is pretty much in line of what we expected, as there is no concentration in terms of channels or type of clients, all adequate in terms of what we were expecting when we launched the digital account in a very strong pace as you can see.

Okay, I'll then move to the financial highlights, talk about our results of the first quarter, and then Inacio can give you more color about these numbers.

Moving to Slide 6, you can see our credit portfolio reached more than BRL30 billion, which is more than 20% growth on a year-over-year basis, and 4% growth on a quarterly basis. Our net income reached BRL190 million which is a very good number in our view, reaching an ROE -- an accounting ROE of 14.2% per year and the adjusted ROE as, you may know, of 20.3% per year. Those figures are not -- are already impacted by the investment in the digital account in the -- in all the banking businesses as there is no deferred costs or expenses on those units, and they require, of course, an important amount of investment in the beginning of the relationship with the clients.

The shareholder's equity, our net worth reached BRL5.4 billion and our Basel ratio was -- in March was 15.9%, only comprised by 41%. So giving us comfort to keep growing and to keep improving our metrics.

So Inacio, if you could explain the financial details?

Inacio Reis Caminha {BIO 19326001 <GO>}

Sure. So moving on to Slide 7. We have the quarterly results. So, we have some key indicators and figures. The upper-left chart shows the evolution of the net interest margin, which ended the quarter at BRL1.45 billion, 18.6%, posting a decrease compared to last quarter due to lower credit assignment volumes which are connected to lower origination.

When we look at credit assignments, they are a very interesting tool for us to manage capital and liquidity. So, we'll keep doing these assignments to the market, including Caixa. Even so, when we look at the -- when looking at the level of the NIM this quarter, it was pretty much in line -- in percentage points with the first Q '20, so posting a very robust level.

The upper-right chart shows provisions and credit recovery. Provisions came down to BRL314 million and the recovery stayed flat in BRL82 million, thus bringing back -- bringing down the net provision in relation to the portfolio to 3.1% showing how the portfolio has been evolving with delinquency rates very controlled, and we'll see how we are comfortable with that, showing also the resilience of our portfolio.

Looking at the expenses charged in the lower-left corner, we see BRL871 million reducing compared to BRL991 million because of the lower origination volumes that we had in payroll. Remember that in 4Q there was a great opportunity in the market to originate more credits in payroll loans with the additional 5% margin. This was not available in the

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first year and then it came back in the second Q '21. So, this reflects the reduction in the origination expenses. And when we look at personnel and administrative, they were flat in BRL451 million. And finally, we get to the BRL190 million net income, growing 11% over last quarter and then reaching the 20.3% adjusted ROE, which is very robust as well.

Talking about the adjusted ROE on Slide 8, we always have this disclosure to show how we get to this calculation. So, this metric basically has two adjustments, one in the net income and the other in the equity. In the net income, we exclude all the excess of financial expenses generated by those legacy time deposits, so the net income would be BRL227 million instead of the BRL190 million. And we can notice here that the gap has been reduced, as we had a significant maturity in December '20 almost BRL1 billion which will help the accounting results this year on.

And the second adjustment refers to the exclusion of the excess of DTA from tax losses of the legacy as well. So, this is a type of equity that does not allow us to leverage our balance sheet. So, the adjusted equity is BRL4.5 billion, if we compare the BRL227 million with the BRL4.5 billion, we get to the 20.3% adjusted ROE, and these are two very simple adjustments to understand, to isolate better our performance, understanding how the bank is running in the margin.

Talking about retail origination on Slide 9, we see that we granted BRL4.8 billion in new credits, lower than 4Q because of the reasons that I mentioned about payroll loan. And we also saw an important evolution in the vehicle volume, especially the light vehicles that went from BRL2.2 billion to BRL2.4 billion, and then the motorcycles volumes basically referred to a lack of products to be sold in Brazil given the lower volume produced in the factory.

Moving on to Slide 10. We see that the portfolio reached BRL30.2 billion, increasing 4% in this quarter, 21% in the year. Payroll remain as the main product that we have in our book. And then, vehicle and personal loans along with credit card has been scaling up faster. When we look at the run off portfolio is that, they have been declining significantly, so reaching the BRL30.2 billion. It's very important always to say that the portfolio has 92% comprised by payroll or collateralized loans, and then when you look at the originated portfolio which includes the assigned one[ph] to cash and basically, we get to BRL37.3 billion.

Talking about Default Ratios on Slide 11. We see that 15 to 90 days NPL after hitting historical lows, last quarter rose to 7.8% impacted by seasonality and portfolio mix. We are very comfortable with this increase and obviously, very comfortable in increasing unsecured loans that we will add up more yields in our results, considering not only the track record that we have in credit but also the fact that I've mentioned about the 92% comprised by secured loans related to either payroll or with guarantees.

It's very important to highlight that the 90 days NPL decreased to 5% compared to 5.5% last quarter, and we had, since the beginning of the pandemic, a very strict policy in terms of loan deferral and we haven't postponed practically nothing[ph] of our portfolio. So, these figures do reflect the reality in our credit portfolio.

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In Payroll Loans on Slide 12. We have more information, so we granted on average BRL716 million per month, totaling BRL1.9 billion in the quarter, 90% related loans and 10% related credit cards. Naturally, the decrease is linked to the loss of the 5% margin that was valid during 4Q. And then, when we see the performance of the quarter, it doesn't relate to what we see for the coming quarters in '21. April has already shown stronger volumes, especially with the coming -- with the return of those 5% additional margin.

When we look at the origination, it is also very important to mention that we focus on margin or in new loans, optimizing the increase in the portfolio, which is different from when you only refinance your portfolio, and then the concentration on federal codes is very relevant representing 88%, out of those 70% related to the social security program, the INFS[ph]. And the portfolio reached BRL14.8[ph] billion, out of those BRL12.7 billion in loans, and BRL2.1 billion in credit cards.

For Vehicle Financing on Slide 13. We see that the portfolio evolved to BRL12.4 billion, increasing 11% with a very adequate level of loan to value, and also the term of the operations. In the table, we see a strong volume of origination, BRL891 million per month in the quarter, very strong and then granting us and confirming our expertise and presence in the market share. So, we had 10% market share in vehicle financing and 23% market share in motorcycle financing, new motorcycles remaining as the leader in this market. And this volume trend shows that our growth strategy is very consistent, allowing us to originate with quality and profitability.

Moving onto Slide 14. We have more details on our credit card business. We believe that credit card is a very important instrument to engage clients, allowing them to control their cash flow, their daily cash flow and then having more touchpoints with the bank as they use the card. And the card itself works as a very easy tool for our clients to have access to credits which, in general, their -- they don't receive this much of attention from the other banks. The upper-right chart shows the increase in the credit card issuance. So, we issued 716,000 new credit cards in this quarter, growing almost 180% in one year. And this relates a lot to the expansion of our digital accounts.

In the bottom, we see the transaction volume also growing at similar pace. This metric shows how the client is engaged and how it has been evolving. Even with the first Q having a lower volume considering seasonality, we still see a rising amount here from fourth Q '20 to first Q '21.

And then, in the upper-right chart, we see the evolution of the portfolio reaching BRL2.1 billion and also showing how our clients are engaged in using our products.

On Slide 15, we have some data on insurance premiums. So, we have originated BRL166 million in new premiums in this quarter compared to BRL150 million last quarter. Insurance is a priority within the diversification strategy to sell more products, do more cross-sell, and then expand our strategy of a complete service platform. Throughout 2020, we have launched some products addressing our clients' needs such as motorcycle assistance and also mechanical guarantee. And then in '21, we will add more products to expand this portfolio, adding life insurance, income loss insurance, home insurance, among others.

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And then with this, we aim to have a very complete insurance offer to help our clients to be more protected and then to extend their financial planning.

So, finally, on Slide 16, we show the evolution reaching BRL28 billion in this quarter, increasing 12% in 12 months. Our strategy remains the same, to diversify the funding lines and then also adding new trends[ph] to achieve that with the digital accounts. When we look at the scenario and how the markets assess our risk, we have been talking a lot lately, how the market perception has improved. And then in this first quarter, we have received two upgrades from Fitch and S&P. So, S&P upgraded our local rating, our rating in our local scale, and then Fitch upgraded both global and local ratings when we have the long-term view. So these two movements, they show how the bank has changed during the time and they were all assessed on a standalone basis, so they do not consider, for instance, that these increases are -- that we have benefited from the controllers' support.

These two movements, they have already started to result in lower funding costs for us in the margin. And in April, S&P also placed us in CreditWatch Positive, waiting for the closing of the transaction between BTG and Caixa.

So, also when we look at the funding structure, we had a reduction to Caixa's interbank deposits to 23% of the total funding base. With the closing of the deal, the remaining balance will be slightly below and will be extended for comfortable tenor at market prices, so we can continue to explore and to grow our portfolio.

On Slide 17, we have the information about capital. So, we ended the quarter at 15.9% CET1, demonstrating a very robust level of capital, allowing us to keep growing the portfolio. And we are very focused on expanding our customer base, delivering this complete platform with products and services with an excellent experience, always based on technology and channel diversification. So, we posted excellent results in the last few months and we believe that we are only in the beginning of this journey.

And with that, we conclude the slides, the presentation and open the line for questions.

Questions And Answers

Operator

Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions) There seem to be no further questions. I will turn the floor over to Mr. Mauro Dutra for his final remarks.

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

Okay. Thank you. Thank you, everyone, for being here. One more time, we can say we are very satisfied with our results and focus on delivering and implementing our strategy. So, see you next quarter. Thank you very much.

Operator

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

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