

Q3 2021 Earnings Call

Company Participants

- Inacio Caminha, IR Superintendent
- Mauro Dutra, CFO, Member of Management Board & IR Officer

Other Participants

- Alejandro, Private Investor
- Eric, Private Investor

Presentation

Operator

Good afternoon, ladies and gentlemen. Welcome to Banco PAN's Conference Call to discuss the Third 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.bb.com.br/ir, and webcast platform with the respective presentation. (Operator Instructions)

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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 Investor Relations and Funding.

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 {BIO 21792010 <GO>}

Thank you very much. Good morning. Welcome you all to our conference call for the results of the Third Quarter of 2021.

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This was a very amazing quarter as we made significant progress in terms of the launch of new products, amplifying client engagement and keeping our solid profitability levels, even with the sizable investments we've been making in the new businesses, in technology and in new products.

So, I'll start the presentation on slide two with our highlights.

The client base of the bank reached more than 15 million clients in September, which is a very important growth of more than 100% compared to one year ago. The credit portfolio ended the quarter with BRL 33 billion -- BRL 33.3 billion, which is also 30% above last year. Of this credit portfolio, we have 90% in secured products.

As secured products, we mean the vehicle business, the pure loans and GTS, all those transactions that have any kinds of collateral. This is very important for us to manage credit risk here in the bank.

The transaction volume in our cards and debt reached BRL 13.8 billion in the quarter, reflecting the higher engagement level of the clients, and it represents an important growth of almost 90% quarter-over-quarter. The bottom-line net income of the bank for the period was BRL 191 million, pretty much in line with less core and 12% above the third Q of 2020.

With this net income, we delivered a 13.6% ROE, which is a very solid level considering we are investing so much in technology, in the ad and the awareness of the bank and so on.

So, moving on to slide three. I will start to talk about each pillar of our business, which are growth engagement and monetization. Initiating by the growth, we see the pace of new clients per business day was 52,000 in the Third Quarter, which is the highest amount of our history and is a very important achievement, reflecting our investments, reflecting the correct proposition for the client and increasing awareness of the bank.

The base reached 15.2 million clients, as I already mentioned in the first slide.

Then moving to slide four.

We start to talk about engagement with some new fears here. The first number is the number of banking clients which reached 11 million in September, 30% above June or 30% growth in the quarter. The level of active clients was 52%, which is above June, above the Second Quarter, even with the base growing at a very fast pace, which is also an important highlight we make here.

We are showing to the market the cross-selling index, which ended September in 2.4. This number is the number of products per active banking clients.

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We hope this tier to increase for the next quarters as we are launching many new products, as I will show you in short slides in this presentation.

And as a result of the increasing awareness of the bank and the number of products we have to train, we had 43% of organic flow in the new banking clients in September, which is very above the level where we had last quarter in June, which was 21%.

So, we keep increasing engagement, and we are very happy to have new products to offer to the clients.

Moving to the next slide, we update the numbers of FX and the total transaction volume, the TPV of the cards and the amount of transaction in that.

So, we had 214 million access in the quarter in our app, and we have BRL 13.8 billion in total transaction. If you analyze the number of September, you will reach BRL 62 billion, which is a very strong amount, reflecting that net clients are using debt, are using the products and are having Banco PAN as an important tool for their daily needs.

We then bring an update of our road map in terms of products for the second semester of the year. Worth to mention that we announced recently two acquisitions, the Mobiauto acquisition and the Mosaico acquisition.

So, you can see in this slide that some products are already related to these two companies. Also, worth to mention that the acquisitions are still pending regulatory approvals, but we are working with them already as partners. So, in July, we launched it.

We were the first bank to launch the FGTS goals in that, which is having a very good acceptance from our clients. We launched the acquiring business also that in September, then we booked in October, the car equity loans and the payroll loans in the ad. We launched the simulator of credit in all the Mobiauto platforms.

We also launched the Buscape car as an asset, we will explain you in some slides in this presentation.

And from now, from today to the end of the year, we also have an important agenda of new products to be launching that, the marketplace, the insurance business, the pre-approval limits for on PAN Health and the new version of that will be launching in December, having a better experience for the client and facilitating the possibilities of the client to contract new products.

So, this is very important for us, client engagement and product launch is very important, and we are delivering it with this more than 800 people of technology here in the bank.

With such road map, we then find the bank in a very good position in terms of the products related to credit, but also related to services, as you can see in this slide.

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So, we hope to increase our revenue sources for the future with a better mix, with more diversification as the clients are using over the projects and services.

And to finish the introduction of the presentation, I will talk about the third deal, which monetization. In the first nine months of '21, we had more than BRL 800 million in investments, which are entirely launched in our results. And even though we had BRL 584 million as bottom line, as net income, which was possible by having almost BRL 5 billion in net interest margin and more than BRL 500 million in the fee revenues.

Fee revenues growing almost 70% year-over-year, which is important and shows the diversification I was explaining in the previous slide.

So, with this bottom line, we had for the period of nine months, more than 14% ROE, which is a very strong leg, in our view, above volumes, you consider the sizable investments are being made and will bring more profitability for the future.

So, for this introduction, that's it. Then move to Inacio, which will explain the financial highlights, and we can talk more in the Q&A.

Inacio Caminha {BIO 19326001 <GO>}

So moving on to Slide 10, we have the quarterly earnings, the main figures.

So, net interest margin reached BRL 1.75 billion, 19.3%, sustaining a very strong level even with lower spread credit assignments that we have observed in this quarter.

Net provisions expenses totaled 4.6% of the portfolio, also coming back to original levels, historical levels that we have had in the bank.

This is mainly influenced by also some gradual mix change and the J curve that we observed in the credit card business. When we look at total expenses, they were flat in BRL 1 billion.

Origination expenses retracted a little bit because of the expansion of organic client flow, reducing CAC and also the lower volume in terms of payroll loan origination.

The administrative and personnel expenses increased because of the mainly expansion of the team that we have had also in the bank to promote all the expansion that we have been observing. And finally, we get to the net income of BRL 191 million in this quarter with 13.6% accounting ROE.

Slide 11 brings the same charge, but on a nine-months view.

We have net interest margin reaching BRL 4.9 billion, 19.5% of interest-earning assets in this period. Also, very strong net provision expenses were flat normally in the two years

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but reducing in terms of percentage of the portfolio.

When we look at expenses, in general, they increased BRL one billion. Then here driven basically by the increase in the client base, also in all the investments that we have done in the bank to expand product offer and engagement from our clients. Nonetheless, we have seen the net income increasing to BRL 584 million in the nine months of '21, reaching 14.2% ROE.

Origination on retail was strong. We originated BRL seven billion in this third Q. Out of those, BRL 1.4 billion related to these new credit's products with guarantees from the, which is the service indemnity funds in Brazil.

In September alone, we originated BRL one billion of this new product. So, we are very enthusiastic about it to keep originating. We were the first bank, as we mentioned, to make this product available in an app.

So, the client can hire it completely by himself, doing this without any help or any assistance from a third party.

This, in the end, shows a strong level of engagement, and we were very satisfied with the performance and also have a lot of positive views for these products in the coming quarters.

In terms of payroll loan originated BRL three billion, retracting from the previous quarter because there was a margin increase in second Q, which boosted the origination volumes. In vehicle financing, we also kept very strong levels of origination, driving the portfolio to increase.

We are very satisfied with the overall origination that we had in this quarter. Credit portfolio, on Slide 13, reached BRL 33.3 billion, increasing 3% in the quarter and 31% in 12 months. We see that we present the FGTS together with payroll loans because they have somehow similar risks characteristics. So, in total, they represent BRL 15.1 billion.

The main highlights here were vehicle and credit cards, which expanded 43% and 119% year-over-year. Then we also saw personal loans still with a small portfolio, but increasing very fast, increasing 65% in three months. Then we have runoff portfolio, which is at BRL 429 million, decreasing significantly and now is mainly comprised by home equity products.

The total portfolio has 90% of credits with some sort of collateral, either payroll, deductible or FGTS or vehicle finance or vehicles as gained, for instance. We only have 0.4% in renegotiated loans. So, all that shows the resilience and the solid risk profile of this portfolio.

Talking about default ratios on Slide 14, we see that the 15 to 90 days ratio stood flat at 7.5%, below historical levels. The over 90 days rose to 5.8% coming from 5.4% in second

Q. This is mainly influenced by the change in mix, which also brings higher credit margins that I mentioned before. So, we are comfortable with this portfolio and with these dynamics that we have been observing.

In Slide 15, we have payroll plus FGTS now combining these two products, information on these two products. So, we can see that the portfolio of FGTS alone reached BRL 1.5 billion, just starting in this quarter. Then personal payroll loans stood at BRL 11.5 billion, and credit card and other BRL 2.1 billion, totaling the BRL 15.1 billion portfolio.

The origination also kept being very relevant in federal codes. So, 96% comprised by FGTS, INSS, plus federal civil servants and armed forces.

Vehicle financing on Slide 16, we see a very strong growth in terms of portfolio growing 35 -- 36% over third Q '20. We have -- we are present in more than 18,000 stores dealerships.

These have held a very important aspect in originating volumes that we have been observing. Not only we have been able to bring sound volumes, but with very profitable combinations of interest rates, also adding LTV and the term of these loans.

And we also are very excited about the unfoldings of the acquisition of Mosaic, and here, specifically, Mobiauto. And what we believe is now we are better positioned in the beginning of the journey of a new car purchase because back then, before Mobiauto's acquisition, we only were given as a financing option to the clients once they had already chosen the car. Now when he starts browsing to search for his new car, we already present credit proposals and quotes for them to finance the desired car.

So, this will probably add more engagements to our clients and also improve even more the relationship that we have with the dealerships.

In credit cards, on Slide 17, we see that we continue with a strong issuance pace, driven by the digital checking account with more than 700,000 new credit cards issued in this quarter. In the bottom, we see that transaction value reached BRL 4.1 billion, also showing the growing engagement of our clients.

The portfolio reached BRL 3.1 billion in the same way.

So, this product is very, very interesting in terms of bringing the client closer. And all the growth that we have here is based on not only more engagement, but also client base expansion.

And talking a little bit more about credit cards. We just started that we say of our new co-branded credit card with Mosaic, a partnership in which the client will have access to cash back not only -- if he does purchase this, any purchase, he already has cash back lately does all these acquisitions in Mosaic's platform. The cash back will be even higher.

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So, another interesting aspect about this product is that we provide the lowest price guarantee. So, we believe that the clients will be really engaged and thrilled about using this credit card. All the experience is within our app. So, Banco PAN's app creates all the ads for the clients to follow their purchases and interact on a daily basis.

This was done with a very intense work, combining our team and also Mosaico team to release this product in a very fast timeline. We are very satisfied with what we have just started.

In terms of insurance on Slide 19, we had BRL 523 million annualized premiums in third Q. We already have 1.5 million active clients with some insurance hired.

We have a lot of potential to keep expanding this product offer, not only with the products that we already have, but we also we will add a new insurance tab in our app. Then we will fill out with more products to create more engagement and more screen time, and with that, contribute to our clients' financial coverage, let's say.

For funding on Slide 20, we reached BRL 32.5 billion, growing 27%. We have seen a very interesting movement of diversifying funding lines, reducing funding costs, also backed by a relevant increase or improvements that we saw in our ratings since the beginning of the year.

The digital checking accounts will be a very interesting opportunity for us to keep diversifying the funding base and also increasing deposits, even though we have a client profile more than saver, we do see interest potential here.

And to conclude, talking a little bit about capital. Our capital ratio stood at 15.3%, reducing a little bit because of the portfolio increase. We are very -- still observing strong levels that gives us a lot of room to keep growing and expanding the operation.

We are very determined and keep growing the bank, adding more scale, investing in new products that meets our clients' needs with that strengthening more engagement. And everything in the end turns back into monetization, driving the bank with a very risk management posture, adding also revenue diversification.

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

Questions And Answers

Operator

(Operator Instructions) (inaudible) from Bradesco would like to make a question.

Q - Eric {BIO 7279947 <GO>}

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My question is on coverage ratio. So, we saw a relatively low coverage ratio if you compare to the past quarters of 93%. So, my question here is to understand what happened here. What is your view on this point? And what do you expect going forward?

A - Mauro Dutra {BIO 21792010 <GO>}

Perfect. Thank you, Eric. Thank you for your question.

First of all, in terms of the coverage ratios on the provision levels, it's important to put in context our credit business, okay? So, we have more than 90% of the portfolio comprised by collateralized loans, as Inacio explained it.

We have payroll loans. We have FGTS loans, and we have the vehicle business, which are quite defensive in terms of individual loans. This is the first important point to mention.

The second one is we do not renegotiate loans. So, all the NPL ratios, provision levels and so on are directly related to the loans that are nonperforming as we do not have anything postponed in our portfolio.

And another important comment is we don't have here in our portfolio a corporate business, which usually brings the coverage ratio, okay? So, considering our particularities in our business, we are very comfortable with these coverage ratios.

If you look back to our retail business, you should not consider the runoff, but only the retail business, this coverage ratio has been quite stable, okay?

So, we do not expect any relevant change looking forward, while we are managing the bank, keeping this collateralized portfolio as being the largest part of our portfolio, where we are also excited with the opportunity of bringing unsecured loans, considering credit cards, considering personal loans and so on with better margins, which are also -- which also brings a little bit more of provision.

So, everything is under control. We are excited with increasing the portfolio and changing a little bit the mix, but the credit management is focusing on these defensive products.

Operator

We have a question from Alejandro via webcast.

Q - Alejandro {BIO 15022370 <GO>}

Thank you for the presentation. Regarding NIMs, why did we -- did we see the contention?

With higher origination on credit cards and reduction in the expensive deposits, should it go up eventually? Or is this due to higher competition?

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A - Mauro Dutra {BIO 21792010 <GO>}

Thank you, Alejandro, for your question. Regarding the NIM, the net interest margin, the small compression on the quarter is impacted by the lower results coming from credit assignment as we have signed payroll portfolios that are originated in the previous 60 to 90 days, we had on the origination of payroll loans with lower margins this quarter.

So, it impacts the need for the entire bank. But if you consider this, the margin has been stable or going up as we add new products to the mix.

Regarding the payroll loan segment itself, we expect the margins to come up as the ceiling of the INSS rates is reviewed, but even though we have nowadays in the bank, a very diversified credit origination. And as you can see in our presentation, for the month of September only, we originated BRL one billion in FGTS loss with higher margins than in the payroll segment. So, we just had a quick adjustment in this quarter.

We expect to keep growing NIM for the next quarters with these items I've mentioned.

Operator

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

A - Mauro Dutra {BIO 21792010 <GO>}

Thank you very much. Thank you, all for being here with us for one more quarter, one more earnings call. Expect to see you in the next quarter, being very happy and very excited with the opportunities we have ahead. Thank you.

Operator

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

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