Q1 2021 Earnings Call

Company Participants

- Joao Marcello Dantas Leite, Executive Officer and Chief Financial Officer
- Roberto Balls Sallouti, Chief Executive Officer, Member of Management Board and Director

Other Participants

- Jorge Kuri, Analyst
- Nicolas Riva, Analyst
- Thiago Batista, Analyst
- Tito Labarta, Analyst
- Unidentified Participant

Presentation

Operator

Good afternoon, and welcome to First Quarter of 2021 Results Conference Call of Banco BTG Pactual. With us here today, we have Roberto Sallouti; Joao Dantas; Jose Miguel Vilela. We would like to inform you that this event is being recorded. And all participants will be in listen-only mode during the Bank's presentation. After Banco BTG Pactual's remarks there will be a question-and-answer section 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 in the platform. There will be a replay facility for this call from May 11th through May 17th.

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 changes in market conditions, government regulations, competitive pressures, their performance of the Brazilian economy and the industry among other factors and risks disclosed in Banco BTG Pactual's filed disclosure documents and are, therefore, subject to change without prior notice.

Now I will turn the floor over 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 to everyone, or good afternoon. So we're very, very satisfied with the results from the first quarter. Our business showed outstanding organic growth in our client franchises. We were able to produce very solid financial results and finished the quarter with a very solid balance sheet, which allows us to continue to implement the very aggressive growth strategy, which we've been implementing over the last few years.

So turning to Page 3, we start with some of the highlights of the quarter. So this quarter is very strong and net new money. We had BRL76 billion of net new money in the first quarter, which gives us a total net new money in the last 12 months of BRL182 billion. Our assets under management and administration increased 67% year-over-year, reaching BRL450 billion at the end of the first quarter. And our wealth under management, so basically our Wealth Management and our retail investment business grew 98% year-over-year reaching BRL317 billion at the end of this first quarter.

Turning to Page 4, we show the numbers that reflect very strong profitability across all segments. So our revenues increased 84% year-over-year reaching BRL2.8 billion. Our earnings before taxes also grew 84% year-over-year, reaching BRL1.6 billion. And finally our net income grew 52% year-over-year, reaching BRL1.2 billion.

Turning to Page 5, you see some of the key highlights of our balance sheet. So we finished the quarter with a credit portfolio of BRL80 billion, a growth of 69% year-over-year. Of these BRL80 billion, BRL10.4 billion in the SME segment. If you remember on the fourth quarter, we had a very strong growth in the SME business, which there is some seasonality towards year-end. But even some of that, let's say artificial high level, we were able to continue to produce growth in the first quarter. Our unsecured funding base reached BRL121 billion, growing 98% year-over-year. Dantas will talk about this further down the road, but this is a 13% from a retail clients already in our unsecured funding base. And finally, we finished the quarter with a Basel ratio of 17.7%, and return on equity of 17%.

In Page 6, we highlight some -- with the M&A acquisitions that we've done, we continue with the selective agenda, basically with these complementing each of our business strategies. So we increased the product offering in our digital retail unit with the partnership with Mosaico and the acquisition of the aggregator Kinvo. We continue to diversify our investment product offering with the minority acquisition stake we did in Kawa, which is an asset manager focused on US markets, which is something that our client base has been demanding. We made some acquisitions like Fator, which allows us to have operational leverage in our platform as it's basically a client acquisition deal. And finally, we increased our stake in our digital banking platform for C, D and E classes in Banco Pan, where we acquired the voting shares that were owned by Caixa.

Turning to Page 7, we go into a bit more detail of the financial highlights of the quarter. So we finished with the total revenues of BRL2.8 billion and net income of BRL1.2 billion, return on equity of 16.8% and net income per unit of BRL1.28. Our cost-to-income ratio even as we expense all of the major IT development and marketing investments that we've been doing in our business continued stable and are in the historical level 43%.

Our comp ratio in 26%. And finally, our balance sheet finished the quarter with BRL280 billion and assets and BRL30.4 billion in shareholders equity.

Turning to Page 8, we see the revenue distribution of the different business units. This is something that we have been pursuing over the last years and quarters. And I think we finally reached what we wanted, which is a very even distribution across the different business lines. Some of them use capital, some don't. Some of them are more stable, some are more volatile, but we really think that this is the new format that we will have for the long run. With the long run probably our client franchises will continue growing more strongly, but we are very, very happy and satisfied with this revenue breakdown. So Investment Banking, Corporate Lending, Sales and Trading, and Investment Management, all of them are around 20% of revenues. This really puts us in a very comfortable position and it's something that we've been striving to reach, as I said previously for quite a few years.

Turning to Page 9, we always told you that there were three trends benefiting our business. So one was financial deepening, two was the digitalization, and three was the ESG agenda. We incorporated the ESG values into our culture. And this has been great. Of course, it helps us to participate in a better world. It makes us more attractive to key talent, which share these values. It also goes in line with the demands of our clients of investors, but this is also very good for business. So a few highlights of the first quarter. So we were the first bank in Latin America to neutralize Scope 1, 2 and 3, carbon emissions. We did this in 2019. In 2020, we did it again. But this time we included the emissions of our independent Financial Advisory network in the calculation, which is something that we innovated. We launched our Impact Investing fund, which is going very well and its fundraising. Our credit portfolio -- eligible credit portfolio in sustainable green and social financing framework reached BRL6.7 billion. We originated and distributed BRL2.7 billion of fixed income instruments linked to sustainable finance. We did our first sustainable linked credit transaction. And finally, we launched a new unit to basically develop the business of CBIO's, which are local credits to compensate, which have to be bought due to regulations in Brazil by those companies which negotiate fossil fuels. We also in the quarter, released our ESG research reports for our clients and also published our annual sustainability report.

With that, I'll pass the floor to Dantas, who will talk about each of the business units, and then we can go to Q&A.

Joao Marcello Dantas Leite {BIO 17617595 <GO>}

Thank you, Roberto, and thank you all for listening our call. We will start on Page 11. Before we discuss the performance of investment banking, just as a backdrop and to put things in context, as Roberto described it, we will show results both in terms of growth, and in terms of performance. They are very good outstanding throughout all our business areas. So growth and performance in the present quarter have been very well distributed amongst all our businesses and this is what I expect we can see from the discussion on the next pages.

So on Page 11, Investment Banking had our -- we had our second best quarter in Investment Banking in the first quarter of '21, only second to the fourth quarter of 2020. And as you can see on the graph in the middle, we have reached probably a new plateau, fair to say a new plateau of revenues and capacity to generate earnings in Investment Banking. We are taking advantage of the strong activity in capital markets in Brazil, about 95% of the revenue in the first quarter came from deals executed in Brazil, half of which -- about half of which ECM, and the other half DCM deals. Despite a large number of M&A transactions in execution and many of them even closed during the first quarter, we only have captured fees from pre-M&As in the first quarter. So that's a business line inside Investment Banking, which we expect can contribute more with revenues throughout the year. We continue to be number one in the ranking in M&A and in ECM, in Brazil and LatAm. And so that next for a very good performance of Investment Banking in the first quarter.

Turning to Page 12, here we see our Corporate Lending and SME business. Our lending portfolio continues to grow. We have expanded our lending portfolio 9% quarter-on-quarter and 69% year-on-year with solid quality and stable spreads. So as you see on the graph in the right part of the page, Corporate Lending portfolio went from BRL47.7 billion to BRL80.4 billion in the 12-month period. That's a 57% growth just in Corporate Lending, and if you look at the SME portfolio, it has grown in the same period 3.2 times.

Our Corporate Lending portfolio also in the quarter was registered an expansion of the average standard. So while during the second and third quarter of 2020, we saw a compression on average tenor, because companies were taking credit from us, looking at the shorter term horizon. Now they are back taking credit for -- taking for the longer-term horizon, which means that the risk appetite or the investor confidence or entrepreneurial confidence is growing in the country as we speak.

For the SME portfolio, I think the highlight is not only the growth, the 3.2 times expansion of the portfolio, but also the fact that we already have more than BRL1 billion of credit card receivables inside the book. The book is still composed of only two products; one is the supplier financing, which we started first and now we start to have credit card receivables as a part of the SME lending portfolio, which we expect also as a category to grow.

Looking at the revenues, we had a reduction of BRL41 million comparing fourth quarter with the first quarter of '21. Debt reduction is only explained by the Special Situations revenue contribution, even though we had a strong contribution from Special Situations in the first quarter of this year. In the fourth quarter of 2020, Special Situations have probably it's best quarter ever. That's why there is a reduction in total revenues even though if you look at the trend we have been growing revenues, we have more than doubled revenues in 12 months comparing first quarter of 2020 with first quarter of 2021. That growth in accrual revenues, which is the majority of the revenues in our Corporate and SME Lending. The accrual revenues are growing in line with the growth of the portfolio, since spreads are stable, and we didn't have significant variations on the levels of provisions, which are adequate for the portfolio at this point.

Moving to Page 13, our sales and trading business is also benefiting from strong volumes in capital markets. The business is producing strong revenues with lower use of capital.

That's kind of a dichotomy explained by two factors, that can be observed by two factors. The first observation point is the market risk component inside our capital requirements. It's only -- it's down to only 17% of our total capital requirements. In the past it's used to be much higher. So the capital requirements for the market risk of our balance sheet today is less than 20% of our total capital requirements. Also you can measure our ability to run the business with lower user of capital by looking at the VaR, which is at historically low level, not the lowest, but in average a historically low level of 44 basis points of our average act in the quarter.

We are able to produce strong revenues with lower use of capital because of two trends. One is a more -- is that we have more diversification inside Sales and Trading revenues. We have now -- we have had this quarter a strong contribution from the credit desk from the rates, equities and energy desks. And inside all these businesses, we have more fee income. So brokerage fees have been growing inside sales and trading more than the total. Our participation in market, in terms of market share of our brokerage volume in Brazil, Colombia, Chile, Peru, Mexico has been expanding for the last years and we continue to see that expansion going forward. So we're very glad that the level of revenues we have reached in the first quarter in sales and trading.

On Page 14, we have the first of the two businesses that presented more outstanding growth, which is the Asset Management. Our Asset Management, AUM has grown 70% in the year in the last 12 months. The net new money off the first quarter of 2020 was BRL43 billion, and for the last 12 months it reached BRL97 billion. Net new money has been growing quarter after quarter, as you can see on the graph on the right part of the page, from BRL9.3 billion in the first quarter of last year to BRL11.8 billion, BRL16.6 billion, BRL26 billion and also BRL42.9 billion. So a sequence of expansion of the net new money quarter after quarter.

This comes as a result of three trends. First, investors are seeking offer in response to a stable macro scenario in Latin America, especially Brazil in low interest rates. Regardless, if they are at 2% or 4% interest rates are low compared to historical trends in Brazil. Second is the growth in alternative assets and we are the largest player in alternative assets in Brazil, be it real estate or private acting infrastructure funds. And also the third one, which is the growth of our fund services franchise. Inside of these asset classes, it's interesting to note our ROAs are stable. So by category in the last years, we have been charging the same management fees. And also it's important to note that the mix has been changing. Now the growth in fund services this year has been bigger than the growth in managed assets.

If you look at the center part of the page, you'll see the revenues reaching BRL260 million, a reduction compared to the fourth quarter, but that's just because in the fourth quarter we've registered, we captured performance fees on an accounting perspective. Funds, provision, performance fees on a daily basis, but we only report them from an accounting perspective on the end of the period of accrual of the performances which happens for most funds in the fourth quarter. Excluding performance fees, we had a growth in management fees and we had a growth of 24% in revenues comparing the first quarter of this year with the first quarter of last year. So a great performance of our asset management business in the first quarter.

Moving to the next page, here we see our Wealth Management and Consumer Banking business. And I would like to start explaining the performance making some comments about our current account. As you know we have launched our current account services last year in the end of 2020. It was certainly one of the most important technology and service developments in our franchise over the recent years and that adds to the development of our investment, digital investment platform, in which we've been investing for the last recent years. The current account is now viewed by our clients as easy and great to use. So a very good acceptance of the service by the clients that already use. It's now a complete platform combined with credit card, debit card, and all the kinds of services that one needs from a current account. So thousands of clients that use our bank account already don't have any other bank account with any other competitor.

We are now launching a marketing campaign that we started yesterday to attract new clients and point new clients attention to the ability to the possibility to use BTG mais. We will continue to invest significant time, talent, resources in providing clients in our financial advisors with best-in-class services and products. And it's that one of the main reasons why we are capturing so much net new money in the wealth management and digital investment business, which as you see in the right part of the page has doubled in assets under management in the last 12 months.

The other reasons of course are associated with the macro backdrop, low interest rates, as I mentioned before, when we discussed the Asset Management. And here moreover so, due to the very accelerated pace of financial innovation that we are able to produce and provide our clients inside the Wealth Management and Consumer Banking business. So if you look at our net new money, in the beginning of last year in the first two quarters, we have BRL11.9 billion and BRL10.7 billion of net new money, so around BRL10 billion of net new money in each quarter. On the second -- on the third quarter and fourth quarter of last year, around BRL20 billion of net new money and now more than BRL30 billion, and that is a constant trend, a trend which we believe will continue to present itself due to the reasons I mentioned before.

Looking at revenues. We reached BRL295 million of revenues, it's a 74% growth compared to the first part of last year, very much in line with the growth in assets under management, since every client that we bring is a client that invests in products that we already offer, paying the same fees of our large Wealth Management clients and therefore profitable clients producing revenues and contributing to the bottom line.

Finally, moving to Page 16. Before we talk about the expenses, here a snapshot of our results in Principal Investments and Participations, which we are putting together in a single page. As you know, principal investment revenues are composed essentially of the results from our investments in Eneva and in Prime Oil, which are performing well. Important to mention that Eneva is now a permanent investment for us, in which we don't capture mark to market according to the price volatility, but we capture results from our share of the earnings of Eneva.

And in Participations, revenues are composed basically of the equity pickup from Banco Pan and from Too Seguros. If we exclude some results from EFG, which now tends to be relevant in our business because we transferred the majority of our stake in EFG to our holding company as you know. So if you exclude for that the revenues in the Participations earnings from Pan and Too Seguros have been growing consistently since the first quarter of 2020. So makes us happy with that performance as well.

Moving to Page 18, here we have some comments about our expenses and main efficiency ratios. As you all know, our cost efficiency is one of our strengths. And it's important to us that as we grow and as we invest and as we flow all the costs of these investments through P&L, we were able to maintain our cost-to-income ratio in line with the historical levels. Once again, again, we did it this quarter. So as you see the normalized cost-to-income ratio for the first quarter was 43%, above fourth quarter of 2020, but pretty much in line with our historical average.

If you look at the line salaries and benefits, you see that we have a 7% expansion on the total expenditure on salaries, 7% expansion due to hiring, 29% year-on-year, if you compare with the first quarter of 2020, that's because we hired 331 people in the first quarter this year and in the last 12 months we hired a 1,057 new people to join us and to deliver services, investments in technology and new products that we have been discussing. On the other hand, on administrative and other costs, we have a reduction of 7% quarter-on-quarter and an expansion of just 5% year-on-year. That's because we are spending less on things like consulting fees, because we are doing things much more in-house than using a third-party service.

And finally, on this page, I think it's important to highlight our income tax rate. Our effective income tax rate in the quarter was 26.3%. That's as a result of the use of JCP, the deductible dividends in Brazil, and of the revenue mix of our business. And that's where we expect to be in terms of income tax for the remainder of the year.

Moving now to Page 20, here a little bit of the analysis of our balance sheet. As you see we are reaching in the end of the first quarter BRL280 billion, that's a leverage of 9.2 in terms of assets to equity. And if we were to consolidate the assets of Banco Pan, this page would show about a BRL320 billion of assets to equity which represents 10.2 times leverage, which is still below our historical average we used -- we always used to operate the bank with 11 times to 12 times assets to equity. So in terms of total assets and leverage of assets to equity, we are still in a comfortable level that allows us to continue to expand beyond the consolidation of Banco Pan, which we expect will happen soon after the regulatory approvals for that transaction.

Also important to note that we have recorded record liquidity. We have BRL46.8 billion in cash and cash equivalents, a growth of 13% quarter on quarter, BRL5.5 billion more in liquidity just from the end of last year to the end of the first quarter. Evidently that's above -- that's a cash cushion that sits above and efficiency standard, since we are prepared to deploy some of that capital soon and the acquisitions that we mentioned. Also important to note there is comfortable coverage ratio of about two times unsecured funding to our banking book assets. The unsecured funding base as we'll see in the next page has grown 13% quarter-on-quarter, while -- on balance credit portfolio, just the part that consumes cash has grown 8% in the same period. And our Corporate Lending portfolio is today the equivalent of 2.6 times our shareholders' equity and with the acquisition of Banco Pan, it would go to 3.6 times our shareholders' equity. So all in all, we can say that after the consolidation of Banco Pan, we will maintain more than enough dry powder to continue to deploy capital into growth.

Moving now to Page 21, and approaching the end of the presentation. You see the unsecured funding base of BTG Pactual. In the last 12 months, we have doubled our funding base going from BRL61.1 billion to BRL121.1 billion of unsecured funding. We have benefited significantly from a volume of additional deposits during 2020, that happened in a classical flight to quality movement that benefited us, but we have not only maintained those additional deposits that we gathered during this -- especially the second and third quarter of last year. We also have been able to continue to expand our market share in local funding in BRL. We also expanded our market share in local funding in Chilean pesos. And we also issued in January this year, our new benchmark green bond in January, that contributes to the increase in securities issued. So all in all a very good performance in terms of our unsecured funding base evolution.

Demand deposits inside our funding base have reached BRL5.7 billion, growing more than four times as compared to the -- due to the first quarter last year. So in 12 months four times more demand deposits, which is a reflection of our expansion into retail. The share of our retail funding in the total funding sight and term instruments continue to expand reaching 12% of the total funding base. And finally, our liquidity coverage ratio has reached 238%, which is above our industry peers in the segment one of banking supervision in Brazil.

Finally, on Page 22, we have our BIS capital ratio. We have reached 17.7% total capitalization ratio at the end of the first quarter and that's about 250 basis points above the average of segment one private banks in Brazil. That's more than sufficient capital to consolidate Banco Pan and to continue to operate above the segment one average of capital ratio in Brazil. It's important to explain that as we consolidate Banco Pan, they are kept the consequences for our business, since we will take on 100% of the risks of Banco Pan, and will take on the minority shareholder equity into our equity and that will impact our capital ratios. But with 17.7% total capitalization, as I said about 250 basis points above the average of the industry, we are comfortable to do that consolidation and still have dry powder to continue to expand the balance sheet organically.

So these were our comments. Again, I thank you all for joining our conference call, and we are happy to take any questions from you. Thank you very much.

Questions And Answers

Operator

The floor is now open for questions by investors and analysts. (Operator Instructions) Jorge Kuri form Morgan Stanley, would like to make a question.

Q - Jorge Kuri {BIO 3937764 <GO>}

Hi. Good afternoon, everyone, and congrats on the good numbers for the quarter. I have two questions on growth, basically one on the Corporate Lending book or your overall lending book no longer only corporate, but your lending book. With the current leverage at 2.6 times of our equity, or if you look at the broader book at 3.1, how much room is there to increase that leverage ratio going forward? We've seen your book growing at a multiple times your equity, but with 20% return on equity, 50% payout that would imply a big deceleration, the current leverage levels. And so how comfortable are you with increasing that leverage ratio? What do you think is a reasonable target then? Isn't the increase in the SME lending and on Banco Pan's lending would argue for lower leverage relative to history. So that's my first question.

And the second one is on the Wealth Management business, which is growing at a phenomenal pace, probably driven by BTG mais. We don't know because there is no disclosure. But in order for us to understand how sustainable these growth rates are, it would be useful to know what portion of your -- you see or what portion of your inflows is coming from that business. So we got to understand market share and can do a much better job at figuring out what the sustainable level of growth for the business is, because I really doubt that a lot of people are putting 90% sustainable for the next half a year, or two years and maybe it is. And so if that's not a possibility in terms of disclosure, what do you think is your best estimate then of how your Wealth Management business will grow over the next few years? Thank you.

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

Thank you, Jorge. So starting first on the credit portfolio, we have a self-imposed limit of three times equity. But we've had this for the last decade. And we are much more diversified in funding and much more comfortable that at the right time we should discuss whether we should increase this to four times and then depending on how our funding continues to diversify and become more sticky, if we can even increase it from there. So that is clearly something that we will probably have to deal with this year.

And I would say that right now, I would say that we're probably inclined to change this three times to four times as we continue to grow the credit portfolio, but we want to make sure that we continue to grow it in a diversified way. So today we have large corp, which we have SME. We have -- so this gives you different centers, different asset classes. We think it's the right way to growing have a diversified credit portfolio, which allows us to be big enough to be with all the key clients and key segments, but small enough that we're not a beta to the economy, that we can have some alpha as has been our historical behavior in our credit portfolio. So we want to keep this, these both things true as we go forward.

Talking about Wealth Management. I agree with you, probably 90% growth for the next two years to three years is not reasonable, especially because the base also becomes much higher. But I would say before this acceleration, we were growing at around the 45% growth, which I think is quite reasonable for the next few years. And this growth is coming across the board. I mean, we're growing in all segments. Even high net worth individuals have been increasing market share. We've been getting more share of wallet. We've been increasing in our independent financial network, the B2B business to B2C business, the adviser which is our brokerage business, next, on which we acquired. Now we have the whole banking offering on top of that. So it's a bit of all of the above. You don't have -- you have a very spread out growth throughout all these different segments.

And I think the good thing is that, we continue to see acceleration in all of these with the exception of Wealth Management with the ultra high business, where we're not seeing acceleration, but we're seeing very strong inflows. But on the, all the other business units, we continue to see acceleration.

Q - Jorge Kuri {BIO 3937764 <GO>}

All right. Thank you, Roberto. That was very clear. Thanks and congrats, again.

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

Thanks, Jorge.

Operator

Nicolas Riva from Bank of America, would like to make the question.

Q - Nicolas Riva {BIO 20589225 <GO>}

Thanks. I only have one question, it's about capital. Joao, you mentioned at the end of your remarks that you expect to remain above the levels of capital of your product mix or peers, you announced the reconciliation of Banco Pan. I wanted to ask you if you have an estimate of where your CET1 will be after the consolidation of Banco Pan. If I just increase your risk-weighted assets by 100% of the risk weighted assets of Banco Pan, I get to about 17.2% CET1 ratio, but I believe there should also be an impact probably on your equity, right. You are buying a leader at around 2.5 times book value, there should be some goodwill created in that. And also I wanted to check if, I guess now you're going to be fully consolidated Banco Pan, up until now, I believe you were doing like the equity peak, but I want you to check also on the change of methodology for the accounting of Banco Pan. And finally, if you have a target level of CET1 below which you wouldn't, but you wouldn't want to go. Thanks.

A - Joao Marcello Dantas Leite {BIO 17617595 <GO>}

Yeah. So, thank you, Nicolas for the question. We do -- we have a target of the always -- above the average capitalization off our peers which are in the private banks, since segment one in Brazil. So this would mean for us above 40% CET1, and above 60% -- 30% to 40% CET1 and above 60% of total capitalization. You are right in all your steps that you considered as the impacts from the consolidation except for one, which is the fact that we already own the majority of the capital of Banco Pan. So we already have today it's a capital underpinning. We did that our investment in Banco Pan from our capital.

So it only comes at the margin. Even though, we will consolidate 100% of the risks. We, so to speak already consolidate more than 50% of them under the capital underpinning regime. So the impact of the full consolidation will come at the margin. In the end of that exercise, since I told you we are operating at 17.7% at the end of the first quarter, we are above 250 basis points to 300 basis points above the average capitalization off our peers, the private banks in segment one, and we'll continue to operate above them.

And in the long run, you can think of BTG Pactual always at the margin better capitalized in our peers. They are larger than us. They are as important to the financial system, because they are in the segment one of banking supervision. But we have always maintained the bank with excess liquidity and excess capital to make sure that we run the business in a way that we can always grow and take advantage of growth opportunities as we see them. Our business tends to grow more than our peers in the segment one, that's why we will always maintain excess capital to make sure we take advantage of those opportunities, which is exactly what's happening up.

Q - Nicolas Riva {BIO 20589225 <GO>}

Thanks very much, Joao. So just to clarify, so then you expect your CET1 not to be below 14% after consolidating Banco Pan.

A - Joao Marcello Dantas Leite {BIO 17617595 <GO>}

Not below 13%, but between 13% and 14% should be something like that.

Q - Nicolas Riva {BIO 20589225 <GO>}

Okay. Thanks very much, Joao.

A - Joao Marcello Dantas Leite {BIO 17617595 <GO>}

Thank you.

Operator

Tito Labarta from Goldman Sachs, would like to make a question.

Q - Tito Labarta {BIO 20837559 <GO>}

Hi. Good afternoon, and thank you for the call, and taking my question. Maybe a follow-up on the Wealth Management and also I guess the Asset Management, you're showing like the net new money, very strong quarter there like BRL76 billion combined between both segments, it has been accelerating. But just to think about how that compared to last year, it was BRL46 billion in the fourth quarter, but had been accelerating per quarter. Is this new level of BRL76 billion? Do you think that's a sustainable level? Was there anything extraordinary there? Does it normalize somewhere in between? Just to try to get some context, right. Just given the strong acceleration and how you see the inflows continue for the rest of the year and maybe beyond would be helpful. Thank you.

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

Hi, Tito. Clearly, we accelerated from last year. So, if this is not the new -- in the new level, I would say it's pretty close to this, so let's use Wealth Management. Maybe is it reasonable to think of BRL10 billion per month seems reasonable. Of course, it's very hard to predict exactly. But we are very bullish that we, this new level that we've achieved is sustainable. Maybe yes, we had a great first quarter, but remembering that was all extra organic growth. We will have some inorganic transaction in the second quarter, more specifically Naphtha. But we do think that something around this area is the new normal level, yes.

Q - Tito Labarta {BIO 20837559 <GO>}

Thanks, Roberto. That's helpful. Maybe a follow-up then you made a big investment in IFAs last year. I don't know how much color you can give, like how much did that contribute into that an area where you continue or will continue to invest and try to grow from?

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

Yes, we will continue to invest. We have been continuing the exposed of the scenarios we imagined. When we made the investments all confirming themselves are slightly better, so that give us very strong confidence to continue with the strategy that we have been successfully implementing.

Q - Tito Labarta {BIO 20837559 <GO>}

Okay. Very clear. Thanks so much.

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

Thank you.

Operator

Thiago Batista from UBS, would like to make a question.

Q - Thiago Batista {BIO 15398695 <GO>}

Hi, guys. Thanks for the opportunity. I have just one question about acquisitions. The Bank did several M&As in the last couple of months. Any segment that you still see opportunities for acquisitions. So there is any of the lack or weakness that you see on (technical difficulty) an acquisition should see?

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

So let me see how I answer this without giving away what I should not. So there are basically three segments that we are investing. So the Retail Investment segment, the Retail Banking segment in (inaudible), and we also have our SME business platform. So I would probably say that we have a few discussions in the pipeline mostly focused on the investment and SME segment, as we speak.

Q - Thiago Batista {BIO 15398695 <GO>}

Okay, okay, perfect. Thank you.

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

Thank you.

Operator

(inaudible), would like to make a question.

Q - Unidentified Participant

Good afternoon, everybody. Congrats on the results. Thank you for taking these questions as well. Two, if I may. First on the demand deposits you swiftly commented there that its surged not from almost BRL3 billion last quarter to BRL6 billion now, doubling in the quarter something we're not seeing in the system. We can't avoid the Bank that this is a fruit of BTG plus additional accounts taking hold. Is -- this is becoming slowly a meaningful or become a meaningful and cheaper funding source for you. Can you elaborate a little bit about this especially if it's right that it's coming mostly from the retail accounts on BTG plus or any other color there? Thank you.

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

Thank you very much for your question. Yes, it's coming from -- essentially from our expansion in retail. It comes from flows of some of our institutional clients as well that sometimes leave their balances on their accounts in between transactions, and it comes also there is an impact in the quarter from money market deposits, those that don't earn interest that we add to that pool. So it's not only the retail base in reals that has been growing, but it is predominantly the retail base in reais that has been growing. Yes, it's fair to say, it shows that we are growing into retail for sure. These deposits use it to exist in our business, but they used to be very volatile, because they were concentrated sometimes on institutional clients and sometimes on corporate clients. Now they are much more concentrated from the flow of retail clients, which makes for a more stable cushion and with interest rates rising, yes, it's a source of revenues. We much prefer the low interest rate environment. It's an environment that allows us to capture net new money and grow assets from third-party from clients in a more accelerated way, but we see interest rates at 4% or 6%, that doesn't change. And we had a little bit of floating revenues to the business mix that is not bad in the end of the day. Remember that when we IPO-ed, we used to deliver higher than 20% returns with CDI much about 10% in Brazil. Today, we deliver close to 20% returns with CDI of 2%. So CDI does have an impact in our nominal returns in serial.

Q - Unidentified Participant

Very good. And then still on this capital or funding topic, you will start to consolidate a Banco Pan shown essentially your Basel ratios will merge, you've given us a guidance there on CET1, et cetera. But you will compete, BTG and Pan will compete over capital, because essentially will be 1, at the end of the day. And Pan is growing significantly with mass retail demand for clean credit there -- you need to cope with that and you need to keep those NTS high, in order keep those clients happy. So this is a good competition, right. So both you guys are growing very fast. And so we're wondering if -- on a high level, how you're thinking about this, if it's really, we should think about it as one or capital decisions will be taken at one entity or the other in case for example capital around comps just a high level thoughts there. Thank you.

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

I don't know, of course, you're right. You have to look at -- as the consolidated thing, even though we don't -- we only own 70 -- lets' say 72% of Pan, but we will do the capital allocation as one and - but we are quite comfortable. We think that this will be a healthy competition. And we have significant earnings power every year that we retain most of the capital. So it's not going to be a lack of capital to deploy. We will be accumulating capital that we will deploy. And actually we're quite satisfied that we have good opportunities competing for this capital. What would worry us, if it was the opposite.

A - Joao Marcello Dantas Leite {BIO 17617595 <GO>}

And remember Banco Pan today on a standalone basis operates with 15% capitalization ratio and has been generating itself enough earnings power to continue to grow its business and increase its capitalization. So in the end of the day that dilemma of capital allocation doesn't really present itself. Since we have earnings power at the level of BTG Pactual and at the level of Banco Pan, which makes us confident that we can grow both businesses as the market presents opportunities to do so.

Q - Unidentified Participant

Understood. Thank you.

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

Thank you.

Operator

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

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

So, once again thank you all for participating in our first quarter call. Thank you once again for your trust and partnership. And we look forward to talking to all of you again at the end of the second quarter. Have a great day and a great week. Thank you.

Operator

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