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Y 2020 Earnings Call

Company Participants

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

Other Participants

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

Presentation

Operator

Good morning and welcome to the Fourth Quarter of 2020 Results Conference Call of Banco BTG Pactual. With us here today, we have Roberto Sallouti; Joao Dantas and Jose Miguel Vilela. We would like to inform you that this event is being recorded and all participants will be in a listen-only mode during the Banc's presentation. After Banco BTG Pactual's remarks, there will be a question-and-answer session for investors and analysts when further instructions will be given.

(Operator Instructions)

Today, we have a simultaneous webcast that may be accessed through the website, www.btgpactual.com/ir in the platform. There will be a replay facility for this call from February 9th through February 15th. 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, the 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 to Mr. Roberto Sallouti, who will begin the presentation. Mr. Sallouti, please go ahead.

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Roberto Balls Sallouti {BIO 4150617 <GO>}

Thank you very much. Good morning or good afternoon to all of you. If you could please turn to page 3 of the presentation, let's start by saying that we're very satisfied with the results for the fourth quarter and the full-year 2020. Basically, we think that they prove the thesis that we had that through -- we will be able to drive a tech enabled expansion into new business segment specifically SME segment and the retail of individuals and also into new business line, which is digital banking. And the fact we could do that without any legacy in IT systems without legacy bank branches. And combining that with the leading wholesale client franchises we have would allow us to have a unique combination where we can have the profitability of the incumbents and the growth of the challenger banks. And this is a thesis that we've been talking about with you investors for the last few quarters and years and we really feel that especially in Q4 all of this has come to fruition and the results of this strategy -- of this unique business model that we think we have built are proving very effective and the numbers are here.

If you turn to page 4, we show some key highlights of the Q4 2020 results. Starting with our assets under management, they grew 38% year-over-year to BRL377 billion. In Wealth Management and here we include the fact that we are now a new set market segment such as the upper retail and retail the mass affluent and the retail markets, our assets in Wealth Management business grew 54% to BRL258 billion in the quarter. And here this number is pure individuals, there are no corporates, no institutionals, no funding numbers and then what we report as wealth under management is resources from individuals and basically the revenue is associated to the distribution channels. There is no institutional revenue, which is shown as being from retail.

Net new money, we had a record net new money flow in the fourth quarter BRL46 billion, totaling BRL127 billion net new money in the full-year. In Investment banking, we had revenue growth of 40%, we're totaling BRL1.3 billion for the year and this is a consequence of the leading franchise that we historically had a great market moment, but also the fact that we've expanded into new market segments and thus we are able to win mandates for transactions to distribute for example in retail, which we would not have been able to do in the past.

Turning to page 5, we talk a bit about the growth of our credit portfolio, as well at the same time we maintained a very strong and robust balance sheet. So our credit portfolio grew 68% in the year to a total BRL74 billion, of which BRL9.5 billion is in the SME segment. We had a very strong growth of roughly BRL3.7 billion in the SME segment in the fourth quarter, part of this is seasonal, so probably in the first quarter it is fair to expect no significant growth in the SME, but we then expect this to pick up starting in Q2 again.

To support this growth in the credit portfolio is crucial to have a funding and here this is a number which is we consider really outstanding. Our unsecured funding base grew around 100% in the year to BRL107 billion and most important Dantas will talk about this in the future, the retail part of the funding of our funding base has been increasing quarter-after-quarter. And finally in Q4, we had a return on equity of 19% already well on our way to the 20 plus which we have always signaled to you guys, which is our medium-term target, with a full year of 2020 17% ROE already taken account for the increase in our capital that we did in the middle of the year.

If you turn to page 6, we talk a bit about some of the qualitative achievements we had for last year and some of them actually in January, one that makes us very proud is the significant progress we made in our ESG agenda where we were very successful incorporating ESG values into our culture. This is something that I have been -- had a chance to talk to you to some of you about. We really think that to treat ESG as something Bureaucratic is not going to work, it's something that has to be incorporated into the values of your corporate culture and to everyone's day-to-day behavior and this will really benefit clients and consequently investors because this is a demand that we don't consider is temporary, but it's something that's here to stay for the next -- for the rest of our lives.

And worth mentioning here is significant donations we did to support social initiatives on the healthcare system in the COVID-19 crisis and now we're actually turning our support to support the vaccination of the Brazilian population and the LatAm population as fast as possible because we think that's the best social and health program that we can have.

In the first quarter in January, right at the beginning of January we issued our first senior unsecured green bond USD500 million and here we had the pleasure to have the lowest coupon ever in a bond that was issued by a Brazilian bank 2 and 3 quarters, something that makes us very proud, shows us that this strategy is correct because with it we are gaining access to a new slew of investors and not just to the traditional emerging markets and investors. We also successfully completed the capital raise of BRL2.5 billion. This will take our Basel ratio to a bit above 18.5% giving us capital to continue growing as strong as we have been growing over the last few quarters and years.

And finally in January, we also launched btg+, which is our transactional banking platform. We had already been operating in friends and family and with some of our investment clients, but now it's full-fledged and we are convinced that we will be able to offer something that's very differentiated in the market, we have some details on that further on in the presentation.

Turning to page 7 of the presentation, let's talk about a bit about the numbers of Q4. So in Q4, we had revenues of BRL2.825 billion and an adjusted net income of BRL1.258 billion, but what's really worth mentioning is the increase in our operating revenues. Our operating revenues for the fourth quarter, so operating revenues are basically the revenues from our key five client franchises. So Investment Banking, Sales & Trading, Corporate Lending, Asset Management, Wealth Management. They totaled BRL2.46 billion coming from BRL1.66 billion in the fourth quarter. So a growth of 48% in the last 12 months, which is really impressive.

For the fourth quarter, we had a cost to income ratio which is well below average around 36.5% just showing as we gain operational leverage, we really even though we are increasing expenses, even though our investments are being expensed and not capitalized, we still have been able to run a very efficient company. We think this is

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probably below what's the long-term average, long term average is anywhere between 42 and 44 cost to income, but it's always great to see a quarter where we have much stronger growth in revenues than in costs.

And finally, we finished the quarter with total assets of BRL245 billion, a balance sheet with very little leverage capital ratio of BRL16.7 billion -- 16.7%, which rose to 18.5% after we conclude the capital raise and the shareholders equity of BRL26.7 billion. We had as I said before 19.1% return on equity in the fourth quarter.

Turning to page 8, we talk about the performance for the full-year of 2020 and here we had total revenues of BRL9.3 billion, net income of BRL4.05 billion, once again worth highlighting the increase in operating revenues, for the full-year we reached BRL7.9 billion coming from roughly BRL6.04 billion in 2019. So growth of over 30%.

For the year, cost to income closer to the targets that I mentioned 41% and for the year return on equity of 17%. We finished as I said at BRL26.7 billion already reflecting the JCP provision which was paid Last Friday, if I'm not mistaken of BRL1.096 billion.

Turning to page 9, we see the breakdown of revenues by business unit. And if you look at the -- on the one on the left hand side, for the fourth quarter, this is exactly what we've been pursuing for the last few years, a very balanced revenue distribution across the different business lines. So if you look at investment banking, corporate lending, Sales & Trading and let's just assume we put together Asset Management and Wealth Management and consider them Investment Management, we're basically evenly split with a little change in and actually some fluctuation among these.

We think that this is the trend, is a trend we've been pursuing, we think this will continue to happen over the next few quarters and years. If you look on the right hand side, there is still bigger concentration in Sales & Trading, but we expect the future to look much more like Q4 than the graph around the full year of 2020.

Finally, if you turn to page 10 before I pass the word to Dantas, who will talk about details of each of the business units, we would like to take the chance to mention some of the ESG accomplishments we had in the fourth quarter. We already mentioned the Green Bond, which was only possible given the Green Social and Sustainable framework that we put in place. This allows us to be tapping this market constantly and to support our clients and more competitive terms.

We in the third quarter joined the sustainability index of the B3 the Brazilian Stock Exchange, the ISE index. We have a program here which is a mentorship program done by our female partners which -- whose objective is to try to increase the female presence in financial markets in general and in BTG Pactual specifically, it's something that we're very proud of and this program received the municipal seal of the human rights and diversity something that makes us all very proud.

We joined the Brazilian Climate, Forest and Agricultural Coalition to make sure that we are in dialog with the agricultural sector, with the agribusiness sector to make sure that we promote green economy, especially in a country like Brazil, which has a huge agri-industry, this is very important. And finally received a B scoring in our Carbon Disclosure program, meaning that we're taking co-ordinated actions to address climate risks and opportunities.

So with that, I'll pass the floor to Dantas, who will talk about each of the business units in more details. Dantas, please.

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Joao Marcello Dantas Leite {BIO 17617595 <GO>}

Thank you, Roberto. A special thanks to all of you joining us today on our call. As we go through the business units performance there will be relevant achievements to point out. We're going to see a lot of growth, good returns, cost efficiency and a robust balance sheet.

So moving to page 12, starting with Investment Banking. The -- we here we show the performance for the quarters of 2020, but we also show the performance for the years from 2016 until 2020 to give you a more ample perspective of how we've been growing the Investment Banking business inside BTG Pactual. We grew revenues since 2016 [ph] by 262%. And if you consider the compound growth ratio, it's 30% per year since 2016 until 2020. The growth if you compare the fourth quarter of 2022 to fourth quarter 2019 is 68% and we reached BRL515 million of revenues in the fourth quarter.

Q4 and the year of 2020 has been marked by strong growth and good performance from DCM and ECM. In DCM especially the local currency market -- this year market in Brazil and about half of the earnings from fourth quarter 2020 came from DCM and about half from ECM. So, very little contribution in the fourth quarter and also grew for the year of 2020 from our M&A franchise, which has always been a strong franchise.

On the other hand, the pipeline of M&A has resumed in Brazil and Latin America companies are actively seeking opportunities, so we expect more contribution from the M&A business line, inside Investment Banking 2021. It's important to highlight as well the rankings we ended as number one in M&A and number one in ECM ended the year of 2020 and also it's important to note that our DCM business, the local currency DCM business has gained a lot of market share in the recent years, a few years ago it was -- there is more franchise and the business was dominated by banks with large balance sheet. Now we are a very relevant player in local DCM market and probably the bank making more revenues out of that business.

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Moving to page 13, here you see Corporate and SME Lending. Starting from the right, we have the strong portfolio growth of 6% in 2020 and if you look at the growth quarter-by-quarter, we grew 8% on the fourth quarter compared to the third quarter, 20% third quarter compared to second quarter and another 20% second quarter compared to the first quarter. So it's a stable growth that we have been capturing throughout the year. It's also a trend if you look backwards. Our Corporate Lending book grew 36% in 2018 and 47% in 2019 on top of the 68% growth in 2020. The fact that we are growing more in 2020 is explained by us gaining market share into Corporate Lending and also the expansion of the SME Lending business inside Corporate Lending.

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The growth in Corporate Lending segment comes from the fact that we took advantage of having the strongest balance sheet in the industry. We started the year with a lot of excess liquidity and a lot of excess capital. And also the nature of our Corporate Lending portfolio which is more long-term in average maturity and very well collateralized by real assets which took us through the year of 2020 in a very stable environment for our portfolio, while most of our competitors had to enter into a lot of efforts for a renegotiation of their portfolios and the maturities thereof.

So for us the good opportunity to increase lending to high grade companies in Brazil, as a consequence the quality of the credit portfolio has even increased on top of the high quality we maintained before. Our provision levels are at around 3%, very comfortable levels, strong spreads. We deployed capital in Corporate Lending with even higher spreads than the average spreads we maintain before.

Also growing the SME portfolio that starts to be relevant in the mix, even though as Roberto said we have a little bit of oversized growth in the fourth quarter, the type of SME lending, which is, which we do, which is the supply chain financing has typically oversized demand by year-end. And so we expect about 2 billion of excess demand, but still excluding for that seasonality we have significant growth in the SME portfolio, which continues to grow as we speak.

And probably fair to say, we're going to talk about that later, but as we expand our presence in upper retail individual clients, the share of personal loans will start to add to the mix of credit of BTG Pactual in the upcoming months and years.

On page 20, we have -- sorry, on page 14 we have Sales & Trading. We had BRL752 million for Sales & Trading in the fourth quarter of 2020. It's a solid performance, especially good given the lower balance sheet usage measured by VaR, VaR ended the year at 0.32% of our average equity and also measured by the risk weighted assets or capital requirements under the Basel model. We ended -- for 2020 full-year we had about 22% of our risk weighted assets coming from market risk utilization. In the fourth quarter of 2020 18% and comparing to for example 2019 when we had 46% of our risk weighted assets consumed by market risk that shows that we are being able to generate strong revenues with less use of balance sheet, less use of capital, less use of liquidity.

So we believe that the BRL752 million is not only good in absolute terms, but also very good quality of Sales & Trading revenues. The revenue diversification inside Sales & Trading is increasing over time. We now have the contribution from credit fixed income in local currency. We always traded corporate bonds in hard currency for LatAm companies, now we trade corporate bonds in local currency for Brazilian corporates and that's a contributor to the revenues. And also -- we also have a larger component of brokerage and flow revenues inside Sales & Trading revenues.

So to give a perspective, the average revenue if you sum the four quarters of 2020 and divide by four, our average revenues for Sales & Trading were BRL780 million. The average for 2019 was BRL700 million, the average for 2018, 2017 was around BRL500 million. So that shows that we continue to grow the revenues of Sales & Trading in

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average over time. Now with less use of balance sheet, less use of capital, less use of liquidity, so all in all very good performance from Sales & Trading.

Moving to page 15. In Asset Management, we have one of the big highlights in terms of growth, a strong pace of asset gathering as you see at the right part of the chart, we reached BRL377 billion of assets under management, we raised BRL26 billion of net new money on the fourth quarter, BRL63.7 billion for the year of 2020. That compares to BRL36 billion of net new money in the full-year of 2019 and BRL44 billion in the full year of 2018. So this shows that we continue to grow in a strong pace and even accelerating the pace of asset gathering as time goes.

The strong growth in AUM as well, AUM grew 38% in 2020 going from BRL273 billion to BRL377 billion. The growth in 2019 was 32%, the growth in 2018 was 43%. So strong growth also in total assets under management, which comes from the net new money and the appreciation of asset prices. Important to see that our revenues have expanded as well, a growth of 23% in revenues. We reached BRL350 million of revenues in Asset Management business, comparing to the fourth quarter of '19 when we reached BRL284 million. So that's a 23% growth in revenues. If you compare the full-year of 2020 to 2019, 17% growth in revenues.

Beyond the growth in revenues, we have basically two components. First, our return on assets, the amount of fees we charge by category are stable. So fees for fixed income hedge funds, equity funds and alternative funds have been stable in the last years, despite the fact that interest rates in Brazil are lower and have been declining over the years, our ROEs are stable. There is a slight decrease in the compound ROE for the business because of the revenue mix.

So as we added more capital, more assets under management in Fund Services and on the other categories, there is a slight decrease on the revenue mix. But the ROEs by category are stable which is great news. And also because of the lower interest rate scenario and the stable macro environment in Brazil and Latin America, we have been able to launch several new alternative asset management products around real estate, private equity, infrastructure, dividend funds, high yield funds. So a lot of new products are being launched and gathering a lot of net new money for our asset management franchise, which pushes the growth of the AUM going forward as well.

On page 16, we have relatively the same picture for Wealth Management, but in a stronger pace. There is a stronger pace of asset gathering in Wealth Management even more than we have in our asset management business. Since here we're not only gaining market share in private banking where we are already relevant player, but also we are gaining market share in the upper-income retail segment. And that is a segment where we started out from zero a few years ago and through the BTG Pactual digital our investment -- digital investment franchise, we are gaining market share consistently over time.

Our net new money for the quarter was BRL19.9 billion for the full-year, BRL63.2 billion compared to BRL25 billion of net new money in 2019 and BRL24 billion of net new money

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in 2018. So, both in the third quarter and the fourth quarter of 2020, we had net new money, pretty similar to the full year of 2019 and 2018, so that shows the pace of asset gathering going very well for Wealth Management.

Our revenue reached BRL247 million if you compare with the fourth quarter of 2019, there is a 52% growth in line with the growth of wealth under management. ROEs are stable, no impact from revenue mix here in Wealth Management. These growth trends have consolidated, they are pretty strong and the stable, we have been growing in this space for the last years. There are two reasons for that. First is our diversified product offering, so the same product that we always offered for the private banking clients are now through the digital ways of interaction being offered to the upper retail segment.

So, it's one of the most complete digital investment platforms in terms of product offering, but specially also due to the highly qualified services we provide. So, not only we offer the full spectrum of products, but we offer the same quality of service that we make available to our private banking clients, to upper retail clients. If that's very important because in a low interest rate scenario where the appetite for risk changes, it is very important that you understand the risk appetite of your clients and are able to offer your clients the best possible returns given their risk appetite. If you don't do that, you end up having your clients churning their portfolio, paying a lot of commissions sometimes going nowhere in terms of the growth in their savings. So we are highly focused not only on the full product spectrum offering in our platform, but also on keeping the quality of the services very high, (inaudible) the quality of the relationships we have in private banking, which are typically long-term oriented.

So we are focused on the long-term returns of the portfolios of our clients. And the new push for growth comes now from the launch of BTG-, which is our transactional bank, that I'm going to explain in the next page. But just before we move to the next page, I would like to highlight that the total of our assets under management and wealth under management have reached by the end of the year BRL635 billion. So we crossed the BRL500 billion mark in the middle of 2020, already reached BRL635 billion of assets in wealth under management by year-end.

Moving to page 17, we have here a picture of the digital retail bank BTG-. BTG- is a complete banking platform, designed to exceed expectations of sophisticated individuals, they can manage complex financial needs in a simple and intuitive way. It's a full transactional and contextual banking full in terms of the services, you already can just bank through BTG-, you don't need to have any other bank account, we have the full functionality available, the bank is complete and it's adaptable, the more you interact, the more the interaction is directed to your needs.

So the pages are customized and adaptable to your client -- to our clients requirements. We have built in personal financial management tools, we have alternative ways to attract clients through the build-up of partnerships like the one we have built with Mosaico, a search engine technology Brazil with (technical difficulty) and foster relationship with a larger pool of clients that become clients of our transactional bank as well. We have all types of credits being made available.

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And on top of that, BTG-, connects and interacts with our digital investment platform BTG Pactual digital, that's probably the most important feature, which is the integrated way you can manage your account requirements, credit and investments, which is basically 100% of your needs from a counterparty bank. So one-off, there is a very distinct offering as we consolidate through a very intuitive nice digital, simple digital interaction, an ability for you to manage investments, credit and your cash flow requirements as a client.

We can convert and connect with partners of different sorts. So for example marketplaces can become partners such as in the case of Mosaico which can accelerate our asset -- our client gathering base. We also connect with partners that provide other solutions. We don't need to develop all the solutions for our clients to have to add functionalities that are interesting for them. We just add the functionalities that already exist from partners and we include the cost in our monthly subscription fee. So it's a complete offer that can expand to embrace and enhance with through partners. And we have flexible loyalty and benefits programs around the best credit card offering in terms of services in Brazil.

So with that, BTG- is now fully launched to clients until -- from September until January it was open for our internal clients and BTG Pactual digital clients have adhered to the platform significantly. Now we didn't start marketing campaign, but we have the platform open for any clients outside the firm to join and that pace of asset gathering is going very well.

The same technology infrastructure that we invested and to build BTG- allows us also to provide services in the bank as a service type of business where we are the payment facility -- facilitator for merchants or payment companies that connect with us and we are the engine behind their operations. We charge by payment, we don't have access to the clients, but this is a way to remunerate and dilute the costs of the investments in our platform which is being deemed as high quality competitor inside the bank as a service competition.

And finally we have BTG- launched for individuals and still this year we're going to launch BTG- under the brand BTG- business for SME clients to have a current account with us as well, which can also enhance our ability to make business with SME clients.

Moving to page 18 we have Principal Investments, we are delivering BRL221 million of income in Principal Investments as you know the main investments here are -- and they have end prime, the former (inaudible). We also -- we had good results from investments in an event prime and also good results from our seed into our global market funds managed by our International Asset Management division.

On Section 2, we move to page 20 where we have our expenses and main ratios. Our cost to income ratio for the full year of 2020 was 40.9% and for the fourth quarter 36.5%. Even though there was an increase in salaries and also an increase in administrative and other costs on a year-to-year comparison, our growth of -- our growth of expenses on a nominal basis is quite moderate leading to an increase in efficiency as we grow revenues much more than we are growing costs. So we're very happy with the efficiency of our

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platform, we are capturing a lot of operational leverage as we grow in all of our operating divisions and this should be the trend going forward.

Moving to page 22, we have the analysis of our balance sheet. A few things to highlight here, first is the record high liquidity, we have reached BRL41.3 billion in cash and cash equivalents, a growth of 138% comparing to the BRL24 billion of cash and cash equivalents in the end of 2019. With that, our LCR goes to 272%, LCR as you know is the regulatory measure of liquidity as dictated by the Central Bank of Brazil. And in comparison to the peer competitors in the segment one, the large retail banks of Brazil, our LCR is above even of the average of that that industry segment, which are banks that are very well -- very well capitalized and liquid.

Our total assets are at 9.2 times our equity, a slight decrease which is not structure of 3%. Actually, the structural part of the balance sheet has increased, the credit has expanded by BRL4.4 billion, while our unsecured funding has increased BRL6.8 billion. So our coverage ratio, which is the ratio of unsecured funding to credit has even further expanded during the quarter and the year. You can see more details on page 23 of how our unsecured funding base has expanded. It was as Roberto mentioned before an unsecured funding base expansion of 100% in the year going from BRL53.6 billion to BRL107.2 billion, up 54% -- BRL54 billion growth coming from three main reasons.

One is the growth for retail inside our secured funding base. Second is the growth of deposits from corporate counterparts and the third is the LTRO program of the Central Bank of Brazil. Quarter-on-quarter the funding base has expanded 6.8%, mostly on local currency deposits mainly Reais but also Chilean pesos. Our demand deposits from retail clients continue to grow is the first line at the bottom, it went from nearly zero in the end of 2019 now at BRL2.7 billion of demand deposits. Also the share of retail on our total fund is increasing as we speak at the end of the third quarter was 9%, now it's 11% of our total funding base.

With that as I said before liquidity coverage goes very high to 273% above our industry peers and as a consequence of all that we have at the same time a slight reduction in tenor and a slight reduction in cost of funding. In nominal terms, since CDI has declined a lot, the reduction in cost of funding is actually quite high, but also in relative terms to CDI or as a percentage of CDI we have a slight decrease in the cost of funding in line with the slight reduction in the tenor which comes from this more diversified mix. So we have more diversification, which gives us more confidence in the funding base that we have. And optimizing tenor and cost of funding as we grow. So it's a healthier -- even healthier composition of our funding base by year-end compared to the beginning of the year.

Finally, on page 24 we have the BIS capital ratio as Roberto mentioned, we are ending the year at 16.7%. If we included the capital that we raised in the first -- in January, we would have posted a pro forma capital ratio of 18.5%, which is a lot of room which gives us a lot of dry powder to continue to expand and to accelerate the organic growth of our business through some acquisitions that help us consolidate even further into the upper retail segment. VaR as a percentage of total average equity has decreased as well as I said that makes for even higher quality of revenues in Sales & Trading reaching 0.33% of our average acting in the fourth quarter of 2020.

So those are our comments for our performance. I'd like to thank again everyone that is joining us and participating on the call and we now open the floor for questions.

Questions And Answers

Operator

Thank you. (Operator Instructions) Our first question is from Jorge Kuri from Morgan Stanley. Please, you may proceed.

Q - Jorge Kuri {BIO 3937764 <GO>}

Hi, good morning, everyone and congrats on the results, hope everyone is doing well. I wanted to follow-up on a couple of the comments made during the presentation. The first one is on spreads, you said that you were able to issue credit with better spreads, is this a function of the mix, are you talking about the overall spread of the portfolio and hence as you gone to smaller companies you can get better spreads or is this really on a product-by-product basis you're getting better spreads. And if so why do you think that is especially in this very low rate environment and what is the outlook for that.

My second question is on the value at risk and what that means results in trading, the 0.33% of VaR as a percentage of equity is evidently much lower than what you were running in the second half of -- in the previous quarters of last year, is that a reflection of you having a bigger capital base and hence you don't need to run that large VaR in order to generate good returns or more of a reflection of volatility and risk. And how do you think that will turn out to be in 2021 and especially in the context of the comment you made that you've been able to grow your Sales & Trading business every year for the past few years is that also what you expect for 2021? Thanks for that.

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

Thanks, Jorge. So on the credit spreads I think the comment we made is the combination of a few things. First, the -- a big part of the portfolio that we currently are carrying was made at one spreads for AAA large Corp's were well above market average and this was probably in Q2 and Q3 of this year where we grew our portfolio aggressively.

Now these spreads are back to normal, but we still have these in our portfolio because these are longer term credits. That's one part of the comment. The second part of the comment is as we change the product mix consequently, the clients, but not necessarily the risk. So when you go to supply chain financing and when you go to quick discount of credit card receivables, we see both of these that the supply chain financing is the credit risk of the large corp and on the credit card receivables we think that it's a top-notch risk because it's the risk of the acquirer.

But both of these products have higher spreads than the traditional loans to the large corp's. So it's a bit of a combination of taking advantage of the market dislocation in Q2 and Q3 and we have a follow through of that and as we get into new product lines. On the part of Sales & Trading, yes, we do expect still to see some growth naturally a smaller

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growth than the other business lines, let's say 10% to 15%. We expect VaR to continue lower because we are not as we told you in the last few quarters, the mix of revenues in Sales & Trading the component that depends on getting right market direction has been decreasing quarter-over-quarter.

Consequently, this is a consequence of the growth in the brokerage, in the agency and in the market making businesses where you would end up with lower directional risk in your portfolio. We still continue with the directional risk naturally, but probably the same size that we have been historically. As a consequence, that is the same size our capital increase than the other businesses increased, that's why a proportion of everything the revenue is dependent on market direction decreased and consequently VaR as a percentage of equity decreased. Does that makes sense?

Q - Jorge Kuri {BIO 3937764 <GO>}

Yeah, thanks for that Roberto. Thanks.

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

Thank you.

Operator

The next question is from Thiago Batista from UBS.

Q - Thiago Batista {BIO 15398695 <GO>}

Yeah. Hi, guys, thanks for the opportunity. I have just one follow-up question from the Portuguese conference call about the money that you raised a couple of weeks ago. You mentioned in the call about opportunities or how fast is the consolidation process of the investment part in Brazil. So my question is with the capital that banks rated, what is the main idea is to continue to do is more acquisitions like the ones that the Bank did during last year is to look to any different segment or more on the investment segment, so only to take to have an idea on the targets that the bank or the segments that the banks -- the bank will target we've kept.

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

Thank you, Thiago. Basically the -- we will deploy the capital the same way we deployed the capital that we raised in Q2 of 2020, so as we grow our business line more specifically, the growth of the credit portfolio and here including now the credit portfolio to individuals, which uses capital and also these acquisitions where we are perceived as a partner of choice, nothing transformational, but we see many small and medium acquisitions which are very complementary to the various growth initiatives that we've been building.

Q - Thiago Batista {BIO 15398695 <GO>}

Yeah perfect and again congratulation for this --

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

Thank you.

Operator

Next question comes from Tito Labarta from Goldman Sachs.

Q - Tito Labarta {BIO 20837559 <GO>}

Hi, good afternoon, Sallouti and Dantas. Thanks for the call. Couple of questions also. First just looking investment banking and the corporate lending clearly very strong quarters, it's all high levels, just to think about the sustainability, just any seasonality here. I mean, you mentioned some seasonality in the corporate lending side, should we consider this as a new base to grow from here or just to kind of think about kind of modeling these two lines given that they were very strong and well above historical levels.

And then second question on the asset and wealth management, very good performance there, they are now 20%, 21% of revenues. Do you have us -- how big as a percentage of revenues can these two segments get combined just given the strong growth even ballpark numbers I don't know like 25%, 30% of total revenue, just to get a sense of how the revenue mix will continue to change, given the strong growth you're seeing in those two segments. Thank you.

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

Thank you, Tito. So on your first question on Investment Banking and Corporate Lending the seasonality we saw is basically just on the size of the SME portfolio. We don't see any seasonality on the revenue side, actually you think its a new base and we grow from here.

And you have to remember that since we grow the portfolio during the quarter, you also start kind of higher point when you go to the new quarter. In Investment Banking clearly Q4 was a record quarter. Not sure that -- we're not sure if that's the base, but if that's the base the level of activity that we're seeing and the pipeline we're seeing, we think it's probably pretty close to it. Clearly the market has changed, the level of the market activity has changed. So if there is not any macro disruption locally or globally, we do think that as we have changed basis in Investment Banking also.

When you look at investment management platforms, as you said both of them are around 25%, they will probably grow faster than the other franchises, but the other franchises will continue growing. So I would probably say that it's a small increase quarter-by-quarter, year-after-year, but it's very hard to give you a figure if it's going to be 25, 30, 35. But clearly, we think that if you look at Sales & Trading we'll probably grow less than all the other franchises than Investment Banking, we have doubts about the level, Corporate Lending continues to grow with the portfolio and clearly we've continued to see very strong growth in Asset and Wealth Management. So, definitely we see them continue to increase as a percentage of total revenues. Does that help?

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Q - Tito Labarta {BIO 20837559 <GO>}

Yeah, very clear. Thanks -- thank you. Just maybe one follow-up, one on the BTG-, thanks for that some additional color you provided here. Any way -- a way to quantify this, I don't know you mentioned like how many of your existing clients have used this, any targets for how many clients you can acquire from this perspective? And so we think of sort of the revenue contribution should this mostly benefit Wealth and management, do you think you mentioned some additional lending. Just trying to think of how revenues can be impacted in some way would BTG-, any color you can give on that would be helpful as well?

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

So remember BTG- is focused on the 30 million Brazilians of A and B segment. Banco Pan is focused on the 150 Brazilians of the C and D segment. So the product offering for BTG- is very different than Banco Pan, let's say if we get three in the medium term, 3 to 5 million clients of the A and B segment, I think we should consider it a huge success. For us it's not the number of clients when it's having the clients with the right profile. So that's the first issue.

On revenues, we're still discussing how to show this revenues will start picking up now in Q1 whether we should show this as part of Wealth Management, whether we should show that as a separate line still not clear for us how to report that, we have to figure, we have to take a bit of -- study that a bit more. But clearly the business plan of this business makes it very profitable and very profitable, very fast. So in two to three years, we expect this to be adding significant revenues just on the traditional transaction banking, right, sale of investment, sale of insurance, credit transactions, credit card transactions. So there is no rocket science here. The rocket science is in you making sure that you can support your clients and exactly what he needs at the time he needs it with a great user experience and that's what we're trying to draw. So that's pretty much it for now.

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

Just to add --

Q - Tito Labarta {BIO 20837559 <GO>}

That's very helpful, yeah.

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

And just to add to your comments Roberto for you to, I think it's important to have in mind that when we raise clients and we gain market share in upper retail, it's not only the revenues coming from these clients direct interaction with us that benefit our business. That the benefit goes beyond that because the more retail clients we have, the more we can distribute the products that we originate, the financial products that we originate through investment banking to Asset management directly into retail and then we retain distribution fees that typically we would not pay for distributing into private banking or into institutional clients, because we have our market share there. As we have a market share in upper retail, we retain distribution fees for those products.

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And also these clients add to our funding base which add to our capacity to diversify our lending. So it's a very interesting value proposition not only the revenues that the clients generate directly as Roberto described, but also the strength of the distribution platform which creates more strength in the origination platform. So that's the beauty of the growth of upper retail in our platform.

Q - Tito Labarta {BIO 20837559 <GO>}

That's super helpful, thank you both very much.

Operator

The next question comes from Thiago Bcel [ph] from Itau.

Q - Unidentified Participant

Yes. Hi everyone, thank you for taking my question. Just on your SME business, I'd like to hear how do you see competition in these receivables discount niche, I mean also sort of companies trying to enter this market and in the sense what would be BTG's main advantages in the origination of this receivable will flow. And so any color here will be appreciated. Thank you.

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

So, Thiago, here you have the competition of the traditional large retail banks which have been in this segment for years and then you have the new comer the FinTechs. We have -- what is our objective? Our objective is to give the experience of a FinTech with having the balance sheet of a big bank. So the big banks, they have -- they usually serve these clients through their branches. It's very hard sometimes to make the desired change in IT systems that they want, just given the legacies even with very talented teams and very big investment, the legacy takes time to deal with.

So the service and the agility that we are able to offer is very much like of these new comers, but these new comers they don't necessarily have the capital and the capillarity especially on the -- in the discount of receivables. We are talking to get into the chain of the large corp's that have been our clients for decades. So, we have great relationships with them to open the door. We have a lot of agility integrating into their systems and we have compared to these new players much more capital and brand. So that I think puts us in a very competitive position.

Q - Unidentified Participant

Okay. That's clear. And just one follow-up defense about spreads in this receivable discount, when we (technical difficulty) of this product specifically get data from the Central Bank you said they are declining over time over the last 12 months let's say, do you see that happening (technical difficulty) segment stable.

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

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No, on this segment they increased with the large spread large corp up in Q3, Q4 and now they're back to what they were before. They are quite close to the spreads over the large corp because basically delinquency zero here. So same delinquency as linked to the large corp's. So, yes we saw spreads are as good as in Q2 and Q3 just as happened to the whole market, but still a very good business.

Q - Unidentified Participant

Okay. Thank you very much.

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

Thank you, Thiago.

Operator

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

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

Thank you all for joining our Q4 and full year 2020 results conference call. Thank you for all the support and partnership that both clients and investors have given us and we hope to see you here in the end of the Q1 for our quarterly call once again. Thank you very much. Have a great week.

Operator

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

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