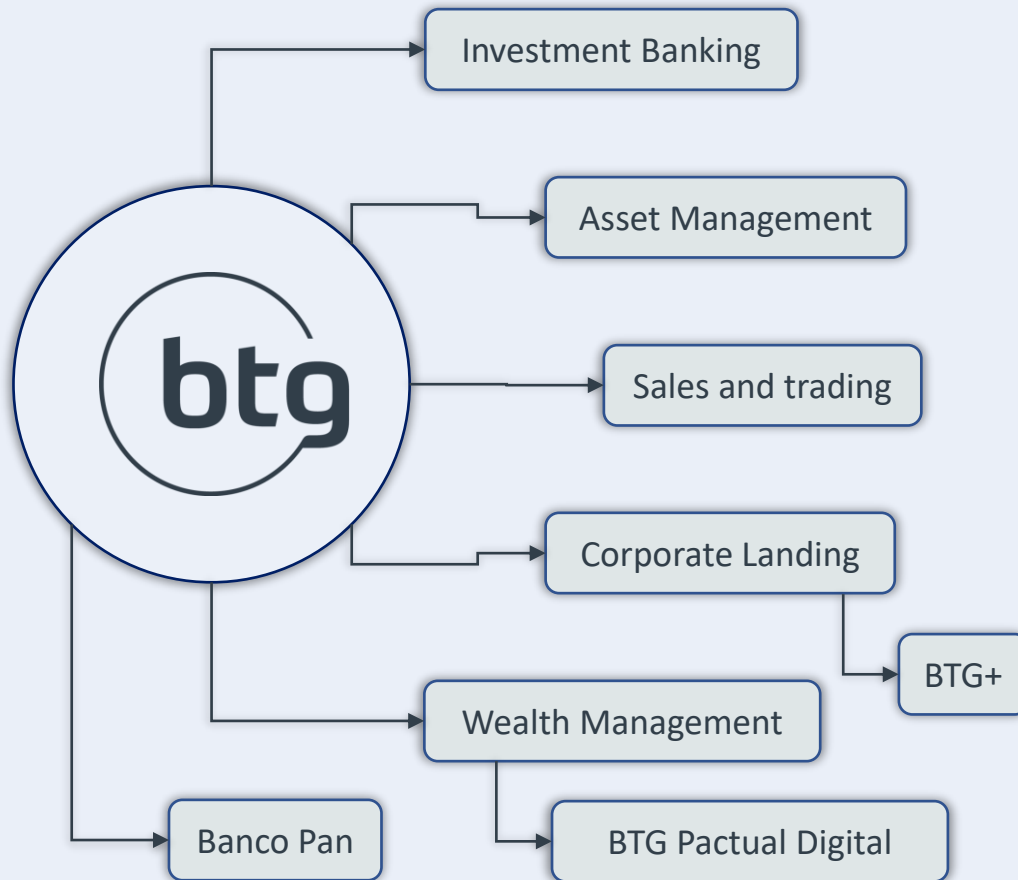
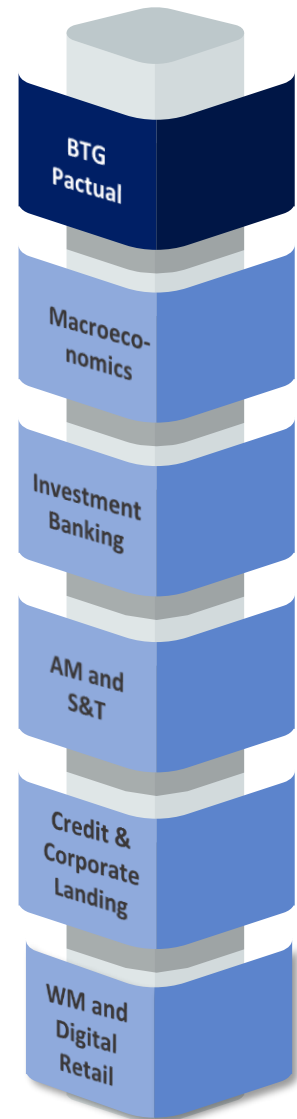




Banking Sector Analysis - BTG Pactual

Davi Jardim Barboza
Heloisa Vono Coube
Isaac de Oliveira Machado

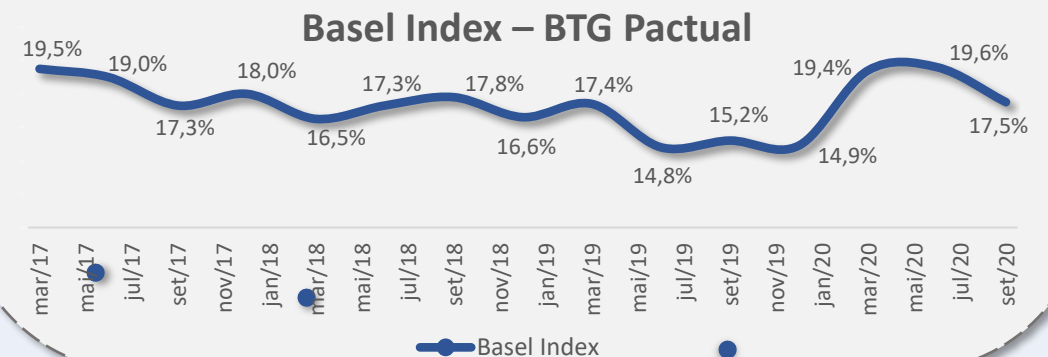
1 BTG Pactual: not a common bank.



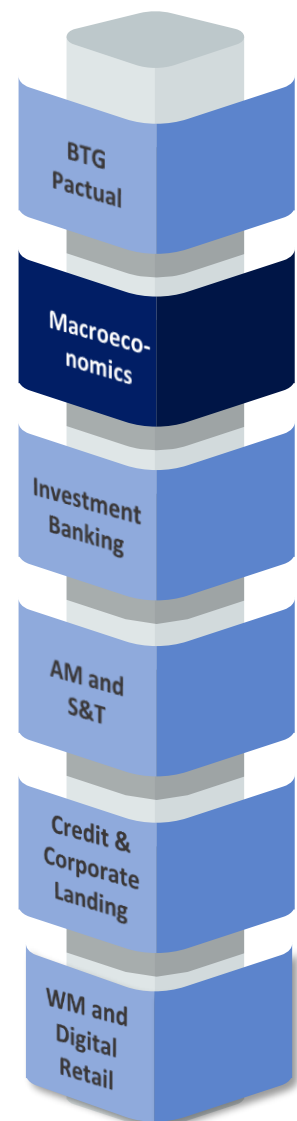
BTG Pactual bank possesses a huge diversity of revenue sources and a remarkable flexibility and capacity of adaptation in all areas. The company demonstrates a strong consolidated profile in the three main revenue generating operations, which are Investment Banking, Asset Management and Sales & Trading.

The bank is constantly aware of new market trends and BTG has an outstanding achievement on updating and shaping its business. An example is that BTG Pactual is beginning to perform on bank retailing division with BTG Pactual Digital.

Furthermore, BTG's Basel index also demonstrates the bank's concern on thriving on the market. In Brazil, the minimum index required is 13% for banks to operate. In BTG's case, this indicator reenforces the company's efficiency on managing risk compared to it's own capital.



2 Macroeconomics: The Market ruler.

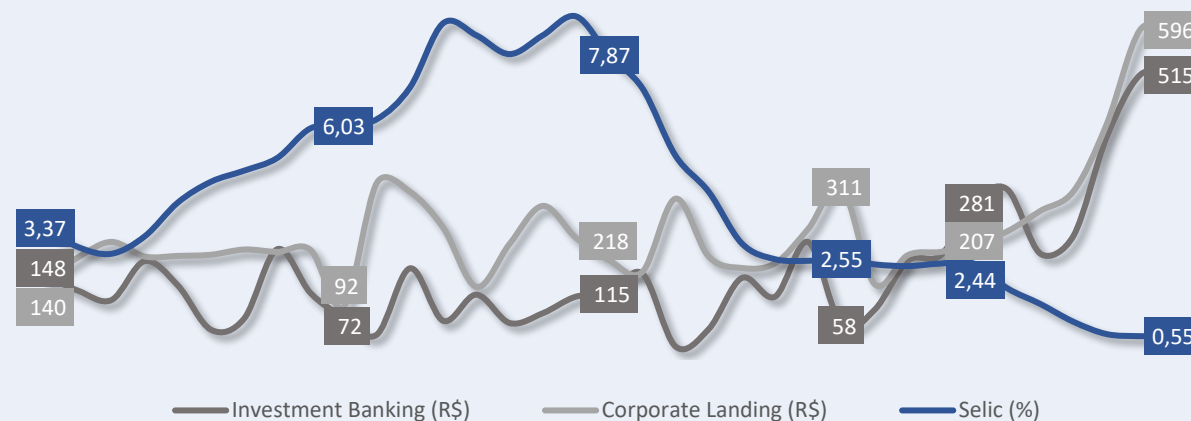


The banking sector has a direct relation with macroeconomic indicators. All transactions are stimulated or discouraged due to them. In Brazil, Selic index plays a major role on bank operations.

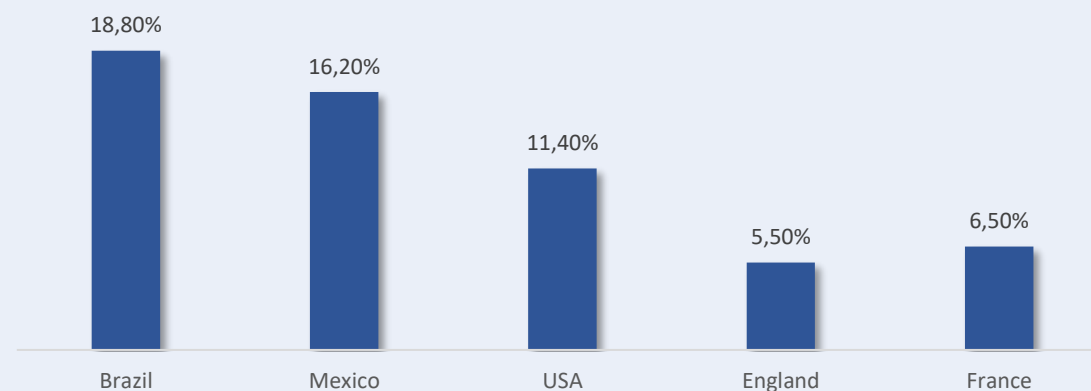
In the divisions that relies its operation on deals volume, the earnings use to be negatively correlated to Selic, performing better when the tax rate is lower, what stimulates the economy and, as consequence, tends to raise deal's volume. This reality applies to both investment banking and corporate landing divisions, as showed in the graphic, which compares BTG's revenue from this divisions and Selic.

Also, a relevant fact about Brazilian financial sector is concentration, what allows banks operating in the country to present higher Return on Equity ratios when compared to other countries.

BTG's Investment Banking and Corporate Landing vs Selic



Banking Sector ROE - 2019

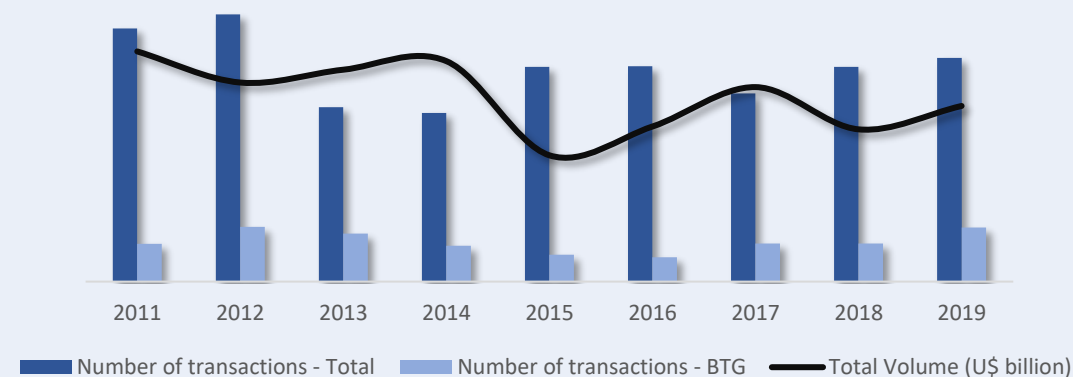




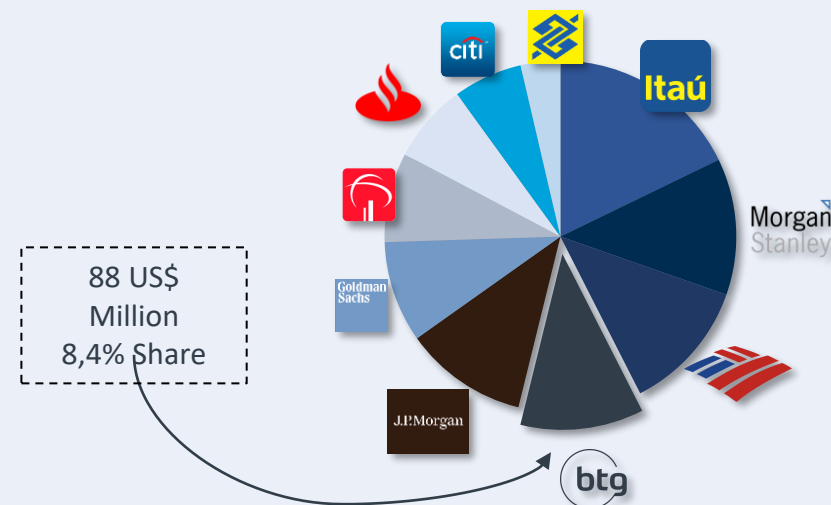
The investment banking division earnings comes from fees, as a percentage of deals volume. This banks usually operates as advisors in M&A deals, equity capital markets and debt capital markets. In Brazil, the competition is between the Brazilian banks, that have solid operations in the country, and foreign banks, that have in it's favor the internationality and global network. In IB transactions, it is clear that BTG plays an important role on the number of transactions

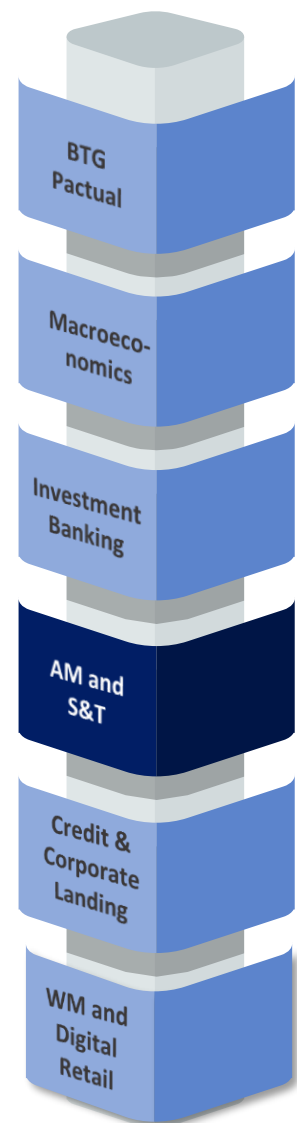
Analyzing IB area, it is evident that BTG Pactual has a large competition in Investment Banking sector. According to Dealogic Quarterly Rankings, BTG occupies the 4th position regarding Brazil's IB revenue by bank in 2019, increasing three positions compared with 2018. It demonstrates that there is still a lot of room to grow in order to achieve the 1st ranking position, which in 2019 was occupied by Itau BBA, who presented a remarkable 139 U\$ million revenue while BTG's revenue was 88 U\$ million.

IB Transactions : BTG vs Others



Revenue from IB activities in Brazil 2019

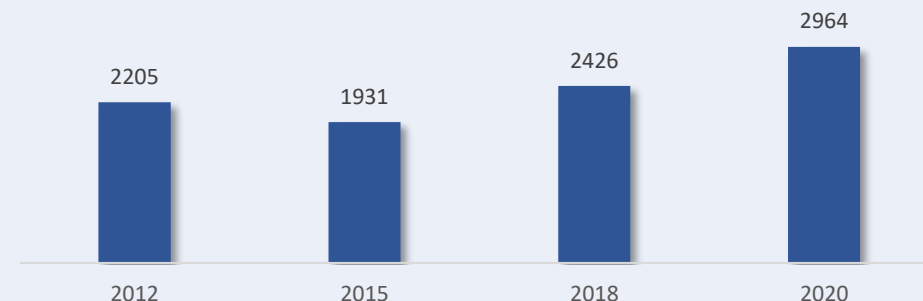




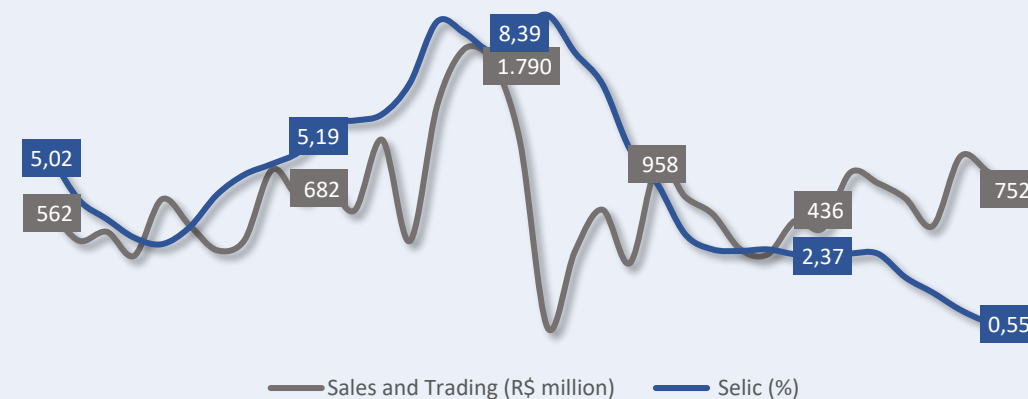
The asset management division is responsible for operating the fund's available resources in the market, seeking returns for its investors. Its revenue comes from administrative fees and performance fees from multiple types of funds, like fixed income, stocks and private equity. The competition in Brazil is between independent firms and banks, in a sector that tends to grow during the low interest rate scenery. This is a very segmented sector, with lots of strong competitors.

Sales and Trading division consists in selling products to investors, advising clients about investment opportunities, and executing trading orders. This division is fundamental in prospecting clients for companies in financial sector and represents a substantial share of bank revenues. The S&T division has significant part of its revenues composed of fixed income funds, what explain the positive correlation with basic taxes of interest (Selic).

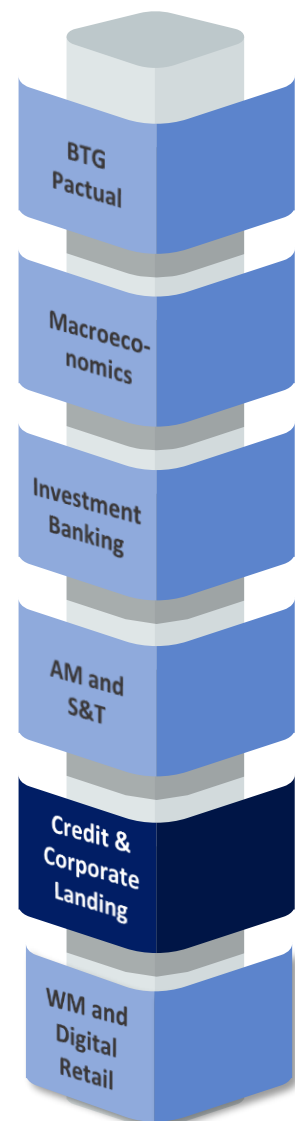
Total Assets under Management in Brazil
Billions USD



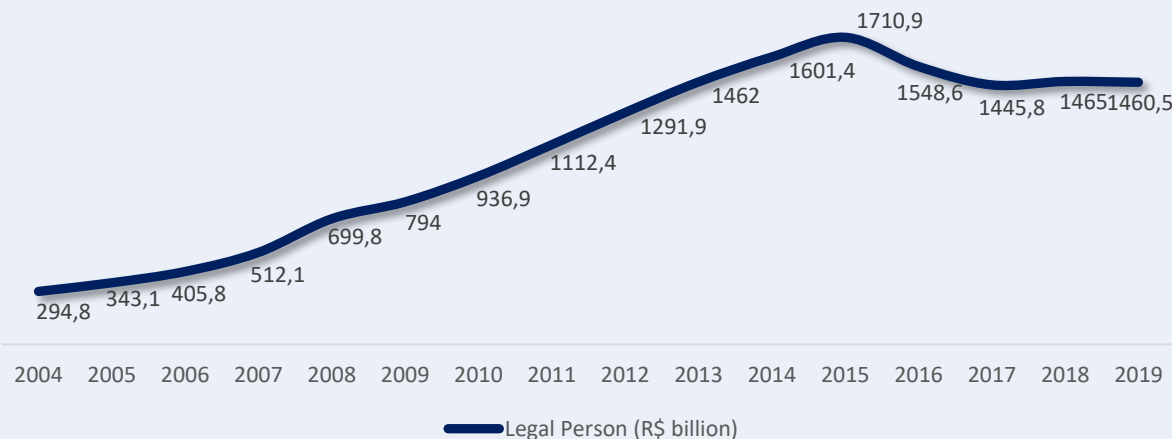
BTG's Sales & Trading vs Selic



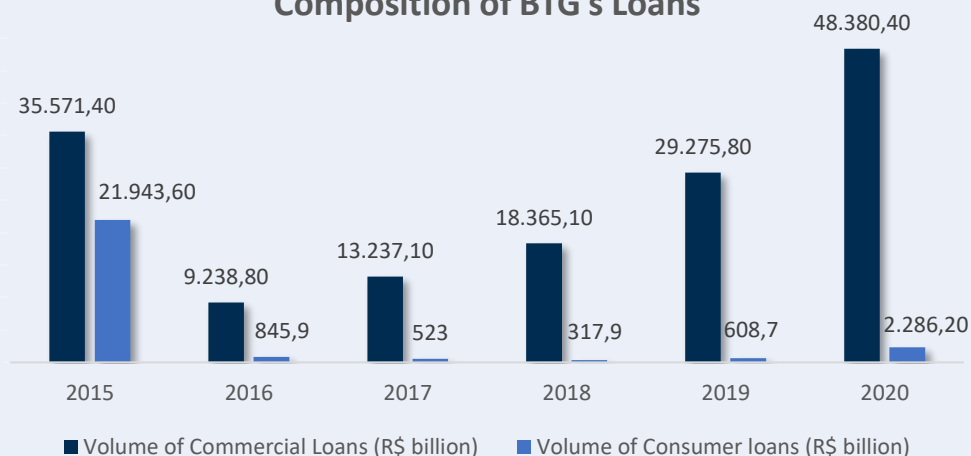
5 Credit & Corporate landing



Legal Person Credit

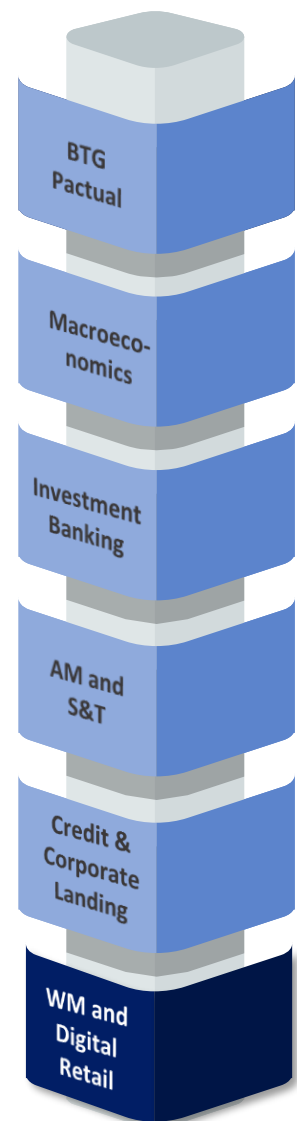


Composition of BTG's Loans



Moreover, a significant area that banks tend to perform is the credit market, mainly in two sectors: corporate landing and money loan. The difference between both sectors is that corporate landing focus on credit operations to companies and enterprises, while money loan is focused on people. The revenue on this sector comes from the spread between capital acquisition cost and charged interest, named “bank spread”, which in Brazil is significant because of the banking sector’s concentration. The credit market is experiencing a period of expansion due to COVID-19 pandemic. In Brazil, the pandemic contention management isn’t a strong deal and efficient, however, Selic index, Brazilian basic interest rate, presents itself at a truly low level, which impacts the opportunity cost and tends to be favorable and encouraging to credit market operations. This can be observed in the significant increase in the Number of commercial loans and number of consumer loans in 2020 compared to 2019, 2018 and 2017.

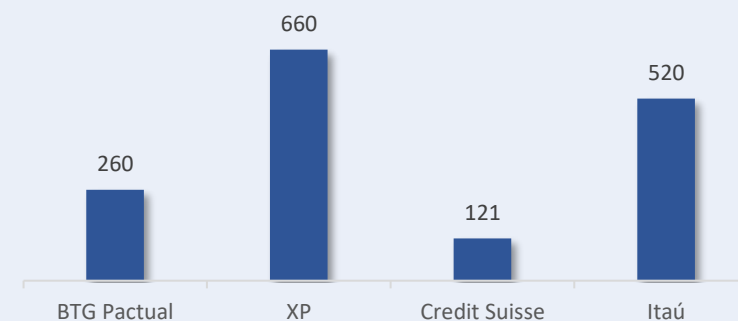




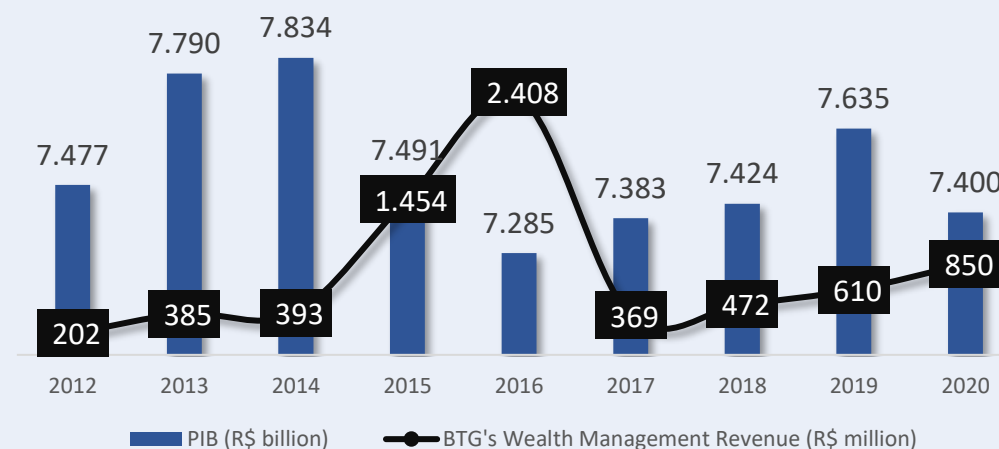
The wealth management division operates with its focus on high net worth people, offering services like financial, tax and succession planning, investment advisory, and asset management itself, giving the client the necessary support to manage a huge amount of assets. Looking at the division's public, it's evident the relation with economic growth, what means more wealth generation and consequently more wealth management clients, also being influenced by interest rates, what is clear when looking at the second graphic.

The wealth management division is very competitive in Brazil, with big players like XP, Azimut, BTG, Itaú, Bradesco, Credit Suisse, among others. All of them seek to maximize value to their clients offering a diverse portfolio of services and investments, trying to use the low interest rate scenery to capture more clients, who are taking their savings to financial markets. BTG and XP are making huge investments during the last years seeking growth in this sector, specially through independent investment agents(AAI's, in Brazil).

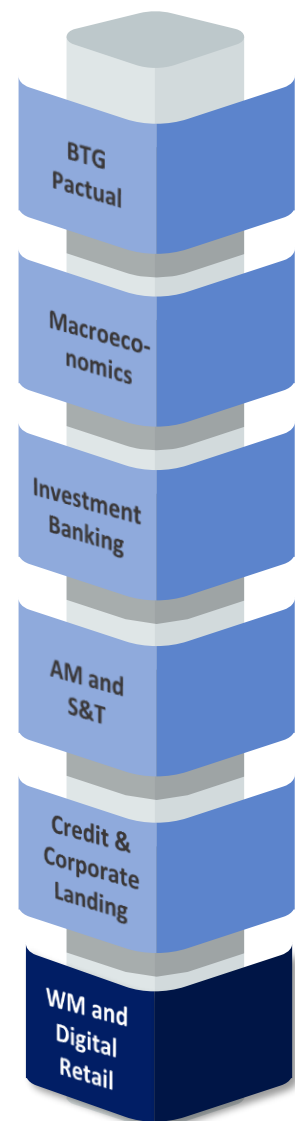
Wealth Under Management (R\$ billion)



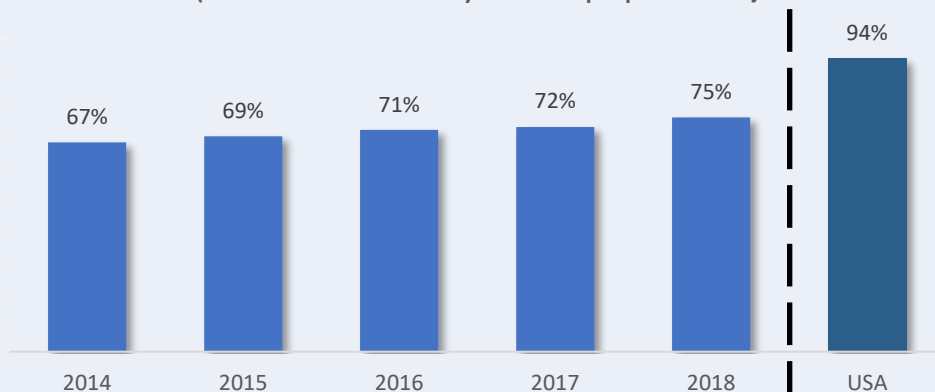
BTG's Wealth Management Revenue vs PIB



6 Digital Retail Bank: a new era for BTG

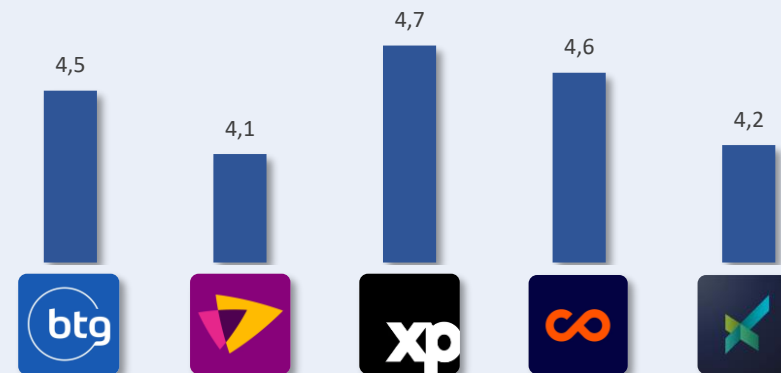


Bank Clients in Brazil
(% of economically active population)

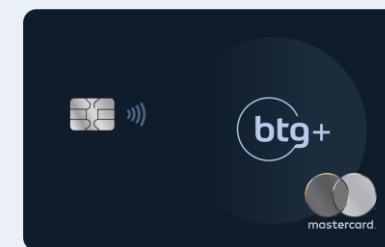


During its history, BTG has always showed capacity of reinventing itself to capture market changes and trends, what makes the bank able to keep growing in adverse scenarios and developing new sectors. With digital banks, it did not change. BTG saw an opportunity to get into retail bank, captured the market trend started by firms like Nubank and entered in this new sector through BTG Pactual Digital, BTG+ and Banco Pan.

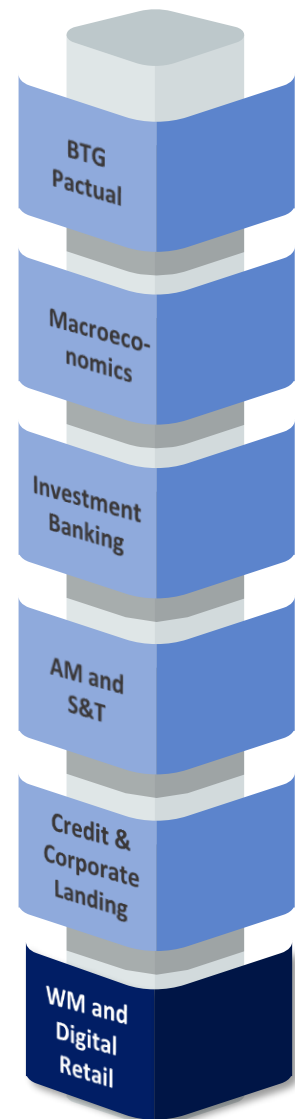
PlayStore and AppStore Average Rating



Investing one more time at the digital segment, the bank launched a new platform inside BTG+ that offers services to small and medium companies, opening a path of possibilities. By engaging on a new growing market, it stimulates revenue generation. Along side with that, BTG also launched its own credit card, which increases its competitiveness with other rivals such as XP.

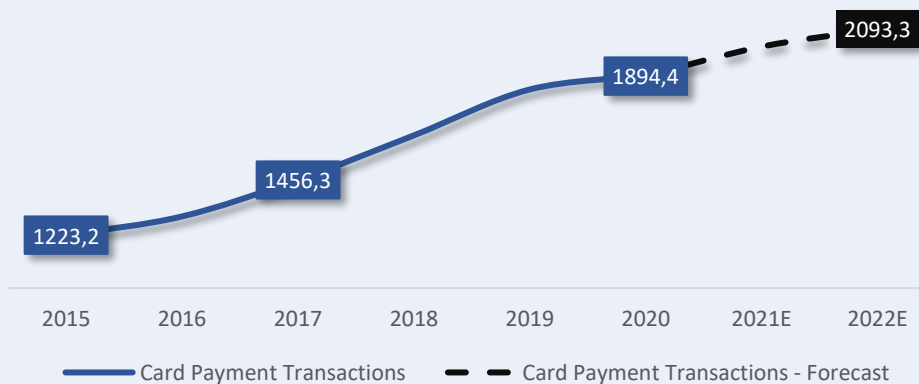


6 Digital Retail Bank: a new era for BTG

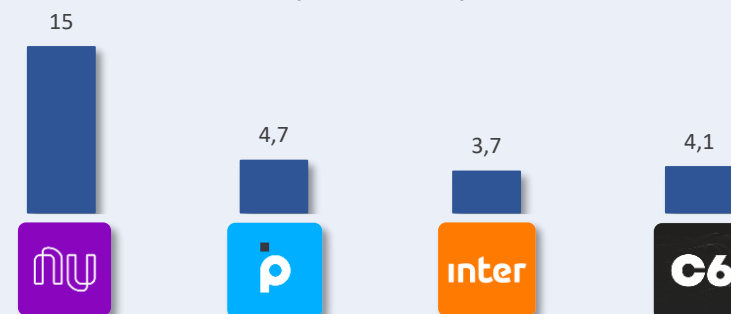


Inside digital banking sector, the normal profile is a company that invests a lot in growth and client acquisition, what reflects in negative financial results and cash flow generation. Banco Pan is an exception, being able to be profitable and, at the same time, attracting a big number of clients. Despite this fact, Nubank is still the biggest digital bank in Brazil if the criteria is client base and current valuation.

Credit Card Payments (R\$ billion)



Number of Clients
(In millions)



Net Income Evolution (R\$ million)

